

Glasgow City Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Glasgow City Council
February 2020

Contents

Risks and planned work	3
Audit scope and timing	8
Appendix 1: Who we are	15

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Glasgow City Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for the council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the council and the reasonableness of the estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>2 Expenditure recognition</p> <p>Most public sector bodies are net expenditure bodies. Therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations.</p>	<p>Clear schemes of delegation in place.</p> <p>Corporate fraud policy in place, whistleblowing procedures and established Corporate Fraud Team in operation.</p> <p>Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure.</p> <p>Compliance with procurement regulations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Detailed audit work on estimation and judgements.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Non-current assets are professionally valued on a regular basis in accordance with a pre-determined schedule.</p> <p>Pension liabilities for inclusion in financial statements are derived from valuation calculations prepared by actuaries appointed by Strathclyde Pension Fund.</p> <p>Controls are in place over provision of accurate data to valuers/actuaries.</p> <p>Provisions reviewed by finance officers in consultation with the council's legal service. Established quality control and review arrangements for accounts preparation.</p>	<p>Evaluate the competence, capabilities and objectivity of both the professional valuer and professional actuary.</p> <p>Obtain assurances on the pension fund control environment.</p> <p>Assess the reasonableness and appropriateness of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non-current assets and of provisions.</p> <p>Review and assess the carrying value of assets identified for sale and leaseback, to ensure they have been properly valued.</p> <p>Sample check accruals and provisions in the 2018/19 annual accounts.</p>
<p>4 Accounting for the funding strategy to meet the cost of the equal pay settlement</p> <p>The council's funding strategy to meet the cost of the equal pay settlement will generate £549 million of income.</p> <p>The strategy is based on the re-financing of an existing City Property loan and the sale and leaseback of 11 council owned operational properties.</p> <p>There is a risk that the council does not properly account for the funding strategy to meet the cost of the equal pay settlement or make</p>	<p>Approval of updated Treasury Management Strategy and Annual Investment Strategy.</p> <p>Provisions reviewed by finance officers in consultation with the council's legal service.</p> <p>Controls around the disposal of properties and capital receipts.</p> <p>Controls around transfers to reserves.</p>	<p>Review of Treasury Management Strategy and Annual Investment Strategy.</p> <p>Assess compliance with accounting requirements for leases.</p> <p>Focussed substantive testing of asset disposals, provisions and reserves.</p> <p>Review and assess the appropriateness of disclosures around equal pay funding, including financial guarantees.</p>

	Audit Risk	Source of assurance	Planned audit work
	appropriate disclosures in its financial statements.		
5	<p>Changes to group boundary</p> <p>To facilitate the equal pay funding agreements the council has established three new Special Purpose Vehicles which are ultimately owned by the Council. This means that there will be a change to the council's group structure.</p> <p>There is a risk that these changes to the council's group structure are not properly accounted for in the group financial statements.</p>	<p>Review of revised group structure and application of proper accounting practice.</p> <p>Established quality control and review arrangements for accounts preparation</p>	<p>An assessment of the council's treatment of its group components.</p> <p>A review of the council's arrangements for the consolidation process for its financial statements.</p> <p>Focussed testing of the group financial statements.</p>

Wider dimension risks

6	<p>Financial sustainability</p> <p>The council faces significant financial challenges, including</p> <ul style="list-style-type: none"> • A spending gap of £41.8 million for the period 2019/20 to 2020/21 • meeting the funding commitments arising from the £505 million cost of the equal pay settlement • local government funding settlements are likely to remain challenging • ongoing rising demands for services • increasing costs across services • implementation of a new pay and grading system <p>There are additional uncertainties that are likely to have a financial impact on the council. These include EU withdrawal, ending of public sector pay settlement and new financial powers for the Scottish Government.</p> <p>To meet these challenges and deliver its strategic objectives it is important that the council has strong longer-term financial plans.</p>	<p>Regular update of longer-term financial plans that take account of the significant financial challenges facing the council, including the affect of the cost of the equal pay settlement.</p> <p>Well established procedures for the monitoring and reporting of the council's financial performance.</p> <p>The application of Financial Management and Control Code of Practice.</p>	<p>We will assess the adequacy of the council's longer-term financial plans.</p> <p>An assessment of the council's financial position based on our review of the council's financial performance and budget reports.</p> <p>Assessment of the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee.</p> <p>Review and assessment of provisions and contingent liability disclosures as part of our financial statements audit.</p> <p>Regular meetings with officers</p>
----------	--	---	---

5. As set out in ISA 240, there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Glasgow City Council as there are limited opportunities to manipulate the way income is recognised.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

8. We will provide an independent auditor's report to council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Executive Director of Finance and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	26 February 2020	Finance and Audit Scrutiny Committee (FASC) – 11 March 2020
Management Report	27 May 2020	FASC – 10 June 2020
Proposed Independent Auditor's Report	2 September 2020	FASC – 9 September 2020 City Administration Committee (CAC) - 17 September 2020
Annual Audit Report	2 September 2020	FASC – 9 September 2020 CAC - 17 September 2020

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of Glasgow City Council is £643,990 (18/19: £633,650). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by mid-June 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

City Administration Committee, Finance and Audit Scrutiny Committee and Executive Director of Finance

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management, or the City Administration Committee and Finance and Audit Scrutiny Committee as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 of the state of affairs of the council and its group as at 31 March 2020 and of the surplus or deficit on the provision of services of the council and its group for the year then ended
- have been properly prepared in accordance with International reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

17. We review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also review the content of the annual accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We assess materiality at different levels as described below and the materiality values for the council (single entity and group) are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Glasgow City Council Financial Statements	
Planning materiality – This is the figure we use in assessing the overall impact of audit adjustments on the financial statements. Based on our professional judgement we have set planning materiality at 1% of gross expenditure on provision of services as set out in the 2018/19 annual accounts.	£29.0 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. We have set performance materiality at 50% of planning materiality.	£14.5 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£0.250 million
Group Financial Statements	
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. Based on our professional judgement we have set planning materiality at 1% of gross expenditure on provision of services as set out in the 2018/19 annual accounts.	£30.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. We have set performance materiality at 50% of planning materiality.	£15.250 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£0.250 million

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	FASC – 10 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package by the Council to Audit Scotland	Mid-June 2020
Latest date for final clearance meeting with Executive Director of Finance	w/c 24 August 2020
Issue of Letter of Representation and proposed independent auditor's report	2 September 2020
Agreement of audited unsigned annual accounts	2 September 2020
Issue of Annual Audit Report to those charged with governance	2 September 2020
Independent auditor's report signed by Audit Scotland	By 30 Sept 2020
Latest date for signing of WGA return by Audit Scotland	28 September 2020

Internal audit

22. Internal audit is provided by the council's internal audit section. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. Our review of the internal audit function concluded that it continues to have sound documentation standards and reporting procedures in place and it complies with PSIAS requirements.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We will consider the findings of the work of internal audit to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

25. From our initial review of internal audit plans we plan to use aspects of the work of internal audit in the following areas:

- payroll verification
- bank reconciliations

- grant approval process.

26. In respect of our wider dimension audit responsibilities we also plan to consider the findings of internal audit work including:

- performance management
- risk management
- capital governance
- IT compliance
- information security.

Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

28. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

29. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term;
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps; and

- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

30. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively;
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance;
- how the council has assured itself that its financial capacity and skills are appropriate; and
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

31. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs);
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports; and
- the quality and timeliness of financial and performance reporting.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate:

- value for money in the use of resources;
- there is a clear link between money spent, output and outcomes delivered;
- that outcomes are improving; and
- there is sufficient focus on improvement and the pace of it.

Best Value

33. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

34. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the council overall
- an annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

35. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

Exhibit 6

2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyle and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

36. This is year four of our five-year plan to audit the council's arrangements for demonstrating best value. During 19/20 we will focus on the council's arrangements for demonstrating best value in the areas of performance and outcomes, along with leadership, governance and scrutiny. This work will be integrated with that described above and will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

37. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

38. The engagement lead for the council is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Glasgow City Council.

Quality control

39. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

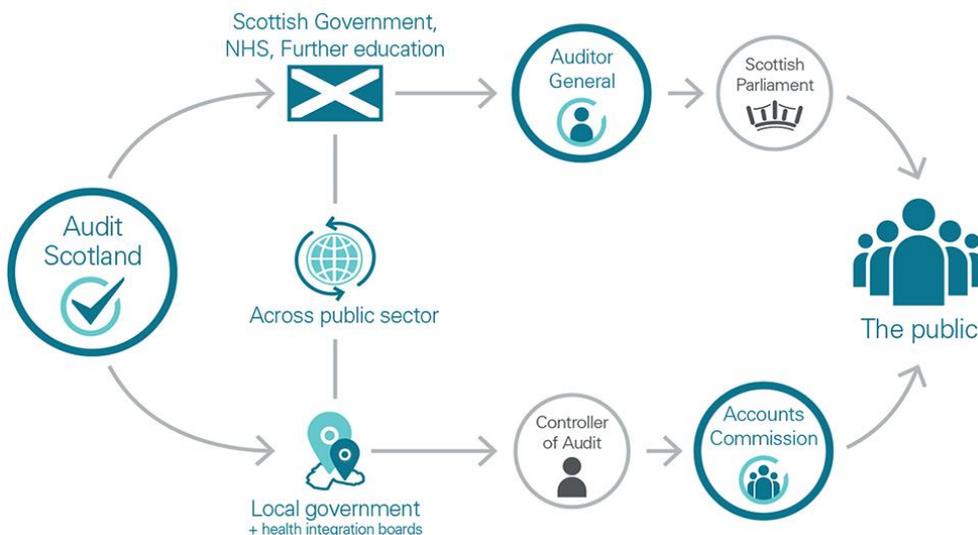
40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Appendix 1: Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Glasgow City Council

Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk