



# Glasgow City Council

2015/16 Annual audit report to Members and the Controller of Audit

September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

Gillian Woolman, Assistant Director, Audit Scotland, is the engagement lead for Glasgow City Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Glasgow City Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

## Audit of financial statements

- An unqualified auditor's report has been issued on the 2015/16 financial statements.
- We received the unaudited financial statements on 15 June 2016 in accordance with the agreed timetable.

## Financial management and sustainability

- From our audit work we note effective financial planning and management: actual performance to budget is rigorously monitored. To reflect the profile of expenditure and extension of commitments, underspends against budgets totalling £17.2m have been carried forward to 2016/17. After allowing for these carry forwards, net direct service expenditure in 2015/16 was underspent by £2m.
- The balance on the General Fund has increased in 2015/16 by £21.9m (55%) to £61.5m.
- An extensive programme of service reviews and business transformation across council services and its Arm's Length External Organisations (ALEOs) is underway, designed to deliver changes to the way services are delivered and to generate significant financial savings.
- The 2016-2018 revenue budget identified a total spending gap of £130m, initially allocated over the 2 years as £83m in 2016/17 and £47m in 2017/18.
- Uncertainty over future levels of Government funding along with rising demands for and costs of services will continue to place a strain on the council's capacity to deliver services at the current level.

## Governance and transparency

- Appropriate systems of internal control were in place during 2015/16. However, we have advised management of a number of matters arising and areas for improvement regarding procedures and controls relating to the accounts receivable and non domestic rates systems.
- The council's internal audit service complies with Public Sector Internal Audit Standards.
- Robust anti-fraud arrangements are in place.



**Best Value**

- There is a well established framework in place to support Best Value.
- A focused approach has been adopted to monitor and report performance against strategic themes and the Local Government Benchmarking Framework.



**Outlook**

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.
- 2016/17 will be the first full year of the operation of the Glasgow City Integration Joint Board (IJB). Budget pressures and the continued need for savings by the council and its NHS partner are likely to result in pressures in the future funding of the IJB.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Glasgow City Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Glasgow City Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Glasgow City Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Glasgow City Council understands its risks and has arrangements in place to manage these risks. The council and executive officers' group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Glasgow City Council will continue to be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the new team of auditors from Audit Scotland as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the council and its group and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements of the council and its group have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council's and its group's ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• Glasgow City Council has accounted for the financial results of nine subsidiaries and three associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £52m</li></ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"><li>• The consolidation pack will be audited and the certified return submitted to the Scottish Government by the deadline of 30 September 2016.</li></ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 15 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.
11. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Glasgow City IJB was established on 6 February 2016 but did not become operational until 1 April 2016. Consequently as the amounts concerned in 2015/16 are not material, they have not been consolidated into the group accounts.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Finance and Audit Scrutiny Committee on 9 March 2016.
13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial

statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Glasgow City Council we set our materiality for 2015/16 at £23.5m for the council (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £15.3m to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

20. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There are no monetary errors to report.
21. A number of monetary adjustments have been made to the group financial statements. In addition we are aware of a number of unadjusted misstatements highlighted by the external auditors of the 2015/16 financial statements of the council's subsidiaries and associates included in the group accounts. The net impact of the unadjusted misstatements is to reduce expenditure in the Group Comprehensive Income and Expenditure Statement by £0.161m.

22. Whilst we request that all errors be corrected, management considered that the unadjusted misstatements are not material to the financial statements.

## Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
24. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you:



**Table 1: Significant findings from the audit****Significant findings from the audit in accordance with ISA260****1.Phase 5 Education Estate Strategy; 4Rs Programme**

We reported in our Annual Audit Report on the 2014/15 audit that the total expenditure on the council's 4Rs Programme was being treated as value enhancing and had been added to the value of land and buildings in the balance sheet. This accounting practice has continued during 2015/16 and the total value of capital spend on the contract to 31 March 2016 of £133m has been wholly accounted for as capital expenditure. As part of the five year valuation programme, the council is revaluing its schools estate in 2016/17. There is a risk that elements of the total expenditure to date should more correctly be accounted for as revenue and therefore be charged against services in the Comprehensive Income and Expenditure Statement.

Given the nature of the major refurbishment and new build work being carried out we accept that the expenditure is likely to increase the economic life and value of the assets although the total value is not yet known. The expenditure to date has resulted in improvements in the condition of the school estate. Since the start of the 4Rs programme, a total of 77 properties have had their condition rating lifted from either "C" or "D", to "A" or "B".

We have inspected a valuation certificate provided by the council's Valuer which provides assurance on the total value of the council's non current assets at 31 March 2016. In addition we have sought specific assurance from the Executive Director of Financial Services that the expenditure to date on the 4Rs Programme is of a capital and not revenue nature and that the likelihood of the current value being materially different from that included in the balance sheet at 31 March 2016 is low.

## Significant findings from the audit in accordance with ISA260

### 2. European Funding

The Scottish Government wrote to the council's Chief Executive on 3 August 2016 highlighting that they intend to review 24 projects contained in the 2007-2013 European Funding Programme which were sponsored by the council's subsidiary Jobs and Business Glasgow or its predecessor local regeneration agencies. These projects total £7.9m. As has previously been reported, Jobs and Business Glasgow is due to repay European funding in respect of decommitted projects. The Scottish Government wishes to be satisfied that projects have been legitimate and that no funds need to be recovered from the council or Jobs and Business Glasgow. The council has revised the Annual Governance Statement included in the 2015/16 financial statements to include the following disclosure:

"The Scottish Government has requested additional information on other claims relating to historic projects inherited by Jobs and Business Glasgow following the merger of its predecessor local regeneration agencies. Any further areas of non compliance identified would result in potential additional liabilities for Jobs and Business Glasgow"

Whilst the auditor has issued an unqualified audit opinion on the accounts of Jobs and Business Glasgow, the opinion includes an "emphasis of matter" paragraph drawing the attention of the reader to the uncertain outcome of the investigation into European funding. It also refers to the fact that as the outcome of the matter cannot presently be determined, no provision for any liability that may result has been made in the financial statements.

We have sought assurance from the Executive Director of Financial Services that the council had no responsibility for the monitoring and compliance of the 24 projects subject to further review and that the council will not be liable to repay any monies to the Scottish Government in relation to these projects.

Whilst there is a contingent liability disclosure in the accounts of Jobs and Business Glasgow we accept that there is no need for a contingent liability disclosure in the notes to the group accounts as the potential amounts involved are not material to the group.

## Significant findings from the audit in accordance with ISA260

### 3. Contingent Liabilities

#### Equal Pay

There have been two waves of equal pay claims lodged against the council. The first wave was settled in 2006. The second wave comprises 9,250 claims. These claims were considered at an Employment Tribunal in December 2013. The decision of the Employment Tribunal found in favour of the council. This was appealed by claimants and their views were heard by the Employment Appeal Tribunal in December 2014 and May 2015. The judgement of the Employment Appeal Tribunal was made in March 2016. This found that the council's pay and grading system, introduced after the first wave of equal pay claims were settled in 2006, was a valid job evaluation system. However, the Employment Appeal Tribunal found that the council's pay protection arrangements were not justified. The council lodged an appeal against this judgement on 14 June 2016. Claimants have also lodged an appeal. The outcome of these appeals is as yet unknown. At this time no comparator information has been submitted to the council on behalf of complainants to enable quantification of the contingent liability.

The council does not believe there is a need to make a provision for these claims, nor would it be in a position to quantify the potential value involved. We accept the council's disclosure of the outstanding equal pay claims as an unquantified contingent liability in the notes to the 2015/16 financial statements. We have sought appropriate written management representation.

#### Other matters

The Report of the National Cremation Investigation, commissioned by the Scottish Government, was published in July 2016. There are a number of criticisms which relate to procedures within the council's crematoria. Consequently the council is considering the report and its response to the findings. The Determination into the Fatal Accident Inquiry which related to the December 2014 Queen Street incident was published in December 2015. We are satisfied that both of these matters are taken into account in a general statement within Note 31 to the accounts: Contingent Liabilities.

## Significant findings from the audit in accordance with ISA260

### 4.Cathkin Landfill Site Restoration

There have been delays during 2015/16 in completing the restoration works of Cathkin Landfill Site. An additional capital budget of £5m was allocated for the purpose of remediating and restoring the site in accordance with the planning enforcement notice due to exceptional wet weather on site. A further £1.2m was allocated to cover any contractual contingency and any future Landfill Tax liability. The original deadline of the planning enforcement order placed on the council by South Lanarkshire Council was 30 September 2015. This was later extended to 30 November 2016. The consequence for the council of not meeting the planning enforcement order deadline is currently unknown but could be criminal prosecution, a fixed penalty notice or direct action by the planning authority.

Progress of the restoration work is being closely monitored. The council has submitted a programme of works to South Lanarkshire Council and officers have given assurance to members of the Finance and Audit Scrutiny Committee that the contract costs are in line with the budget and that the required works will be complete by the deadline of 30 November 2016.

We have received management assurance that the revised completion date for the works of 30 November 2016 will be met and that the council are not currently seeking to further extend the deadline. Therefore no further disclosure is necessary.

## Future accounting and auditing developments

### Health and social care integration

25. From 1 April 2016 IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material the financial results of the local IJBs will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

### Highways network assets

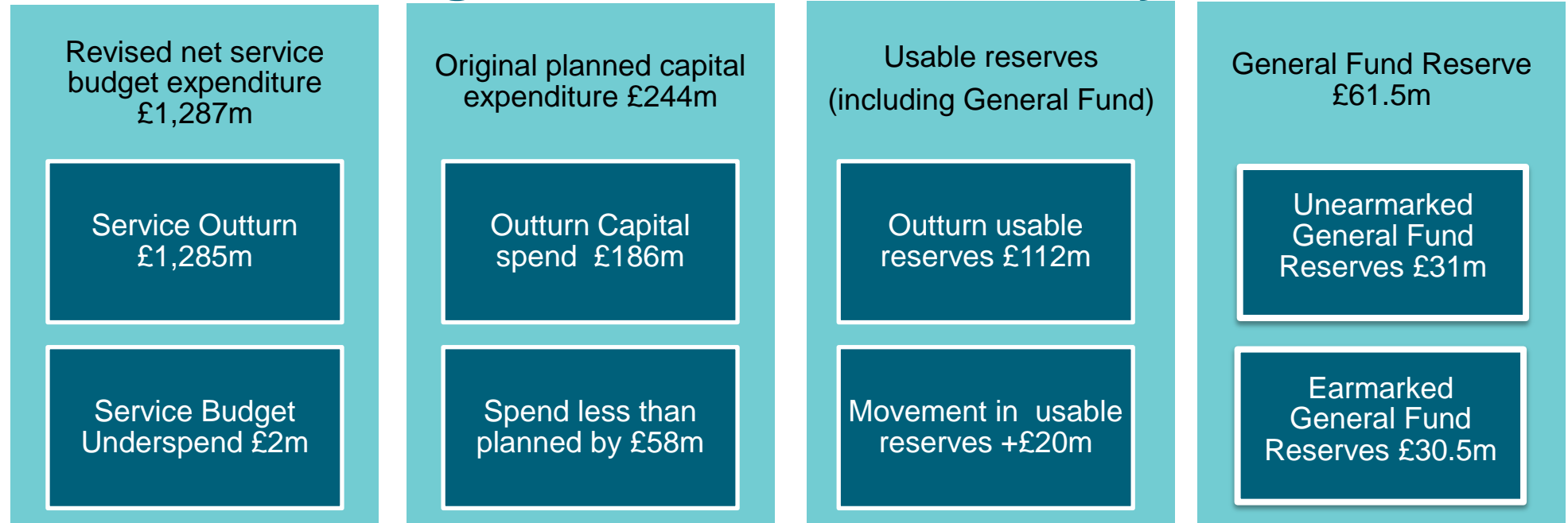
26. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.
27. The council has continued to make sound progress in preparing for the change in the accounting basis. It has identified that it currently holds as infrastructure assets approximately 1,700 kilometres of roads, around 300 road bridges and over 70,000 street lighting units. A full review of infrastructure assets is to be carried out in 2016/17 to identify assets that meet the definition of a highway network asset. The council has determined the likely impact of

applying the new valuation basis on its annual accounts. Where infrastructure assets were valued on a depreciated historic cost basis, they were recorded in the balance sheet at £562m; where valued on a depreciated replacement costs basis, they amount to £7,415m.

### Code of Audit Practice

28. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
  - Financial management
  - Governance and transparency
  - Value for money.
29. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability



## Financial management

- 30. In this section we comment on the council’s financial outcomes and assess the council’s financial management arrangements.
- 31. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure

and income against agreed budgets is central to effective financial management.

## Financial outcomes

- 32. The council’s 2015/16 revenue budget was approved by the council on 19 February 2015 and detailed service estimates subsequently approved by the Executive Committee on 2 April 2015.

33. The following are a number of the main financial outcomes included in the 2015/16 Outturn report submitted to the Executive Committee in May 2016:

- To reflect the profile of expenditure and the extension of commitments into 2016/17 underspends against original budgets totalling £17.2m have been carried forward to 2016/17 as part of earmarked balances within the General Fund balance.
- After allowing for the balances carried forward to 2016/17, net direct service expenditure in 2015/16 was underspent by £2m. There were particular budget pressures within Social Work Services resulting mainly from the cost of maintaining minimum staffing levels within residential units and increased costs for looked after children.
- The council reported an underspend of £26.5m against financing costs. This was due to the application of £18.7m capital receipts and the ongoing impact of lower interest rates.

### Financial management arrangements

34. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

35. We reviewed the council's financial regulations, which are revised annually, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.

36. Financial monitoring reports are submitted monthly to the Finance and Audit Scrutiny Committee and Executive Committee. Budget monitoring reports are comprehensive and well laid out and budget holders within services attend the Finance and Audit Scrutiny Committee to present reports and respond to members questions.

### Conclusion on financial management

37. The council has effective financial management arrangements. Due to pro active budget monitoring and the timely identification of the need for the virement of funds, the council has a good track record in delivering services within very small margins of total approved budgets.

## Financial sustainability

38. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
39. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
40. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

### Reserves

41. The overall level of usable reserves held by the council increased by £19.9m (22%) compared to the previous year and totalled £112m, refer Exhibit 1.

#### Exhibit 1: Usable reserves

Description	31 March 2016 £ million	31 March 2015 £ million
General Fund	61.5	39.6
Capital Reserve Fund	12.4	5.1

Description	31 March 2016 £ million	31 March 2015 £ million
Capital Grants Unapplied	1.2	12.2
Repair and Renewal Fund	12.3	15.4
Culture & Recreational Fund	13.0	6.0
Insurance Fund	11.6	13.8
Total usable reserves	112.0	92.1

Source: Glasgow City Council 2015/16 financial statements

42. The main movements in usable reserves during 2015/16 include:
- A net increase of £7m in the Culture and Recreational Fund to support, amongst other things, future expenditure on the European Sport Championships to take place in 2018
  - An increase of £7m in the capital reserve to support the 2016/17 budget strategy
  - An increase of £21.9m in the General Fund balance. This relates mainly to the carry forward of underspends from original budgets across services and underspends in financing costs.
43. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.



44. The 2015/16 closing balance on the General Fund was £61.5m. Of this £30.5m has been earmarked for future commitments and £31m remains as an uncommitted balance. Earmarked balances include:
- £8.5m for employee and work related matters
  - £7.8m for ring fenced receipts, integrated care funds and delayed discharge funds within Social Work Services
  - £7.2m to support the 2016/17 budget.
45. The level of uncommitted general fund reserves at 31 March 2016 equates to 2.2% of net budgeted expenditure for 2015/16 and is slightly ahead of the council's reserves policy which is to hold balances of 2% of net budgeted expenditure over the medium term.

### Accounting deficit

46. The council reported an accounting deficit of £3.7m on the provision of services in 2015/16 (£55.6m deficit in 2014/15). Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £21.9m.

### Group accounts

47. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
48. Glasgow City Council has a large and complex group comprising nine subsidiaries, three associates, the Common Good Fund and sundry trusts. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets

by £52m due mainly to the fall in the value of the net pension liabilities of the group entities.

### Financial planning

49. The council set its 2016-2018 revenue budget in March 2016. This identified a total spending gap of £130m initially allocated over the 2 years as £83m in 2016/17 and £47m in 2017/18. The council's transformation programme has identified savings of £104.4m split £57.8m in 2016/17 and £46.6m in 2017/18. The shortfall in the level of savings identified for 2016/17 is planned to be funded by one off use of balances of £25.2m. This includes a reduction of £15m in financing costs, the suspension of a £3m contribution to reserves and a redesignation of £7.2m from earmarked reserves from previous years. A further consequence of the shortfall in identified savings in 2016/17 was to increase the gross spending gap to £72m in 2017/18. The council has recently updated its financial forecast for 2017/18 and, having accounted for previously approved transformation savings and updated budget assumptions, has identified a revised spending gap of £34.9m.

### Council specific transformational programme/efficiency strategy

50. Transforming Glasgow is a wide reaching and extensive programme of service reviews and business transformation across its services and ALEOs. These are designed to deliver significant changes to the way the council delivers services and to generate significant financial savings. As reported to the Executive Committee and the

Finance and Audit Scrutiny Committee in September 2016, the overall programme is forecast to deliver savings of £53.2m (92.5%) of the £57.5m savings incorporated within the 2016/17 budgets.

51. The projects included in the programme have been grouped under a number of transformation projects, including:
- LEAN: the redesign and streamlining of internal processes and better use of technology and automation to internal and customer processes to achieve efficiencies
  - FLO: the reduction of management costs through increased productivity and streamlining of management processes
  - LEO: the realignment of professional and support services across the council and its ALEOs to reduce duplication and improve efficiency
  - Council “family”: the restructuring of the council and its ALEOs.
52. The council is well aware of how crucial securing business transformation savings will be to deliver the 2016-2018 revenue budgets. It has very comprehensive arrangements for monitoring its transformation programmes which include:
- Clear governance structures with responsibility for each main programme being assigned to named officers from the council’s senior management, with the overall programme and the council’s “family review“ being led by the Chief Executive and Executive Director of Financial Services respectively.
  - Progress is reported to every meeting of the Extended Council Management Team and reported to the Executive Committee

and the Finance and Audit Scrutiny Committee as part of revenue budget monitoring.

- A suite of programme monitoring reports is prepared which include: detailed financial tracking results, progress against each project’s targets and milestones and a review of implementation risks and issues.
- The performance of each service and ALEO is monitored against the key transformation requirements of finance, delivery and workforce.

### Capital programme 2015/16

53. The council spent £186m on the 2015/16 capital programme, £58m less than planned. The council’s major capital programmes include refurbishment of the primary school estate as part of Phase 5 of the pre-12 strategy, new care homes and day centres and investment in the city’s roads.
54. The capital programme was funded from:
- £122.5m capital grants and contributions
  - £37.6m borrowing
  - £18.7m asset sales
  - £5.6m revenue contributions
  - £1.6m finance lease.
55. Total capital income for the year amounted to £141.2 m including receipts from asset sales totalling £18.7m.

56. Progress against the council's capital programme is closely monitored and reported to the Executive Committee and Finance and Audit Scrutiny Committee. The council continues to encounter delays in the delivery of the Tomorrow's Residential and Day Care Programme for Older People. The Tomorrow's Residential and Day Care programme was originally due to be completed in 2014/15. Due to delays caused by challenging site conditions and the completion of works required by utilities companies, the programme is due to be complete in 2018. To address delays caused by utilities, the council is taking steps to ensure earlier engagement with utility companies at the outset of contracts in future.
57. **Glasgow City Region - City Deal:** Glasgow City Council is the lead authority of the eight local authorities that form the Glasgow and Clyde Valley Cabinet, a Joint Committee which was formally established in January 2015. The Cabinet is responsible for the governance of the Glasgow and Clyde Valley City Deal, a £1.13 billion, 20 year investment programme funded by the UK and Scottish Governments and partner local authorities.
58. The council, as the lead authority, received £30m of City Deal funding in 2015/16, of which £23.5m was allocated to Glasgow City Council. The current gross expenditure budget for the council's City Deal projects is £86.7m.
59. **Tax Increment Finance (TIF) Scheme:** Total investment in the Buchanan Quarter TIF scheme to date is £15.2m, with the total TIF debt of £21.9m to be repaid over the remaining scheme period (22 years).
60. The original anticipated start date of the main building contract was June 2015. In July 2015 Land Securities, owner of Buchanan Galleries and developer of the Buchanan Quarter project, advised the council that it was unable to proceed with the proposals to develop the Buchanan Quarter due to conflict with the Edinburgh to Glasgow Improvement Programme (EGIP) and Queen Street Station renewal works. As such, progress on the TIF scheme has been delayed during 2015/16. The last progress report on the TIF, reported to the Executive Committee in May 2015, highlighted the importance of meeting a number of key milestones which were critical to ensure the successful delivery of the TIF project. Given the delays which have arisen, members should be updated on the impact of the delays on the TIF scheme and the planned receipt of NDR income.

### Asset Management

61. Making best use of the council's asset portfolio will play a very important role in the successful delivery of the council's Transformation Strategy. Having finalised the governance arrangements for the council's Corporate Asset Management Plan 2014 to 2017, focus should now be given to implementing the asset management plans for each individual asset class. These should be based on accurate data on asset use and condition and performance measures which can inform future investment decisions.

## Workforce Management

62. Effective workforce management is essential to ensure that the council maximises the contribution of all employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. The council's Transforming Glasgow programme includes a significant element of staff related savings within the overall target of £130 million in 2016/17 to 2017/18, estimated as being equivalent to 1,500 full time equivalent posts across the council and its ALEOs.
63. The council introduced a new comprehensive approach to workforce planning in 2015/16 to apply across the council and its ALEOs. Workforce plans have been developed which set out the full time equivalent (FTE) position for each grade by quarter in the current year and forecasts the position for future years up to, and including, 2018/19. All services and ALEOs submit a quarterly update. These returns are then collated centrally to identify gaps and surpluses and inform budgeting and resourcing activity plans, including redeployment and retraining opportunities.
64. A governance framework is in place to oversee workforce planning. The Workforce Scrutiny Board has a key role in scrutinising and monitoring workforce plans. It is made up of senior managers who have an understanding of the human resources budgets required to carry out essential services and an awareness of the service reform initiatives affecting their service and the wider council.
65. A Corporate Human Resources Strategy 2013-2017 is in place and progress against the target actions is reported to members and the

Extended Council Management Team. Activities during 2015/16 focused on meeting the council's equality and diversity commitments, developing people management skills and attendance management. A major action in the strategy is an assessment of the council's management layers and spans of control.

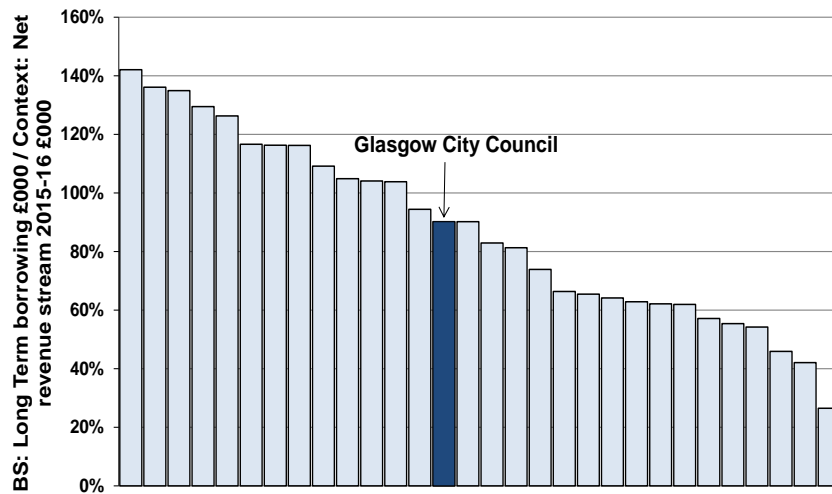
66. The council regularly carries out staff survey exercises. Corporate and Service level improvement plans have been developed showing the steps being taken to address the main areas of concern identified in the May 2015 survey namely, low staff morale, bullying and harassment and violence at work. Progress made is reported to both the ECMT and members.

## Treasury Management

67. The council's Treasury Management and Annual Investment Strategy for 2015/16 were approved by the Executive Committee on 2 April 2015. Due to the interest rates market and the council's overall financial position, there was no new long term borrowing undertaken in the year. This is in line with the council's Treasury Management Strategy which was to make use of internally generated funds before using long term borrowing facilities.
68. The council's capital financing requirement (CFR) is a measure of the council's underlying need to borrow to finance the total value of capital expenditure. The CFR at 31 March 2016 was £1,820m while net external borrowing was £173m lower at £1,647m.

69. The value of long term borrowing at 31 March 2016 was £1,314m (2014/15: £1,380m). Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 2 shows long term borrowing as at 31 March 2016 as a percentage of net revenue stream for the year for all mainland councils in Scotland. The council's position is highlighted.

**Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue streams**



Source: Scottish councils' unaudited accounts 2015/16

### Pension liability

70. The net assets on the council's balance sheet have increased significantly from £1,086m in 2014/15 to £1,531m in 2015/16, an

increase of £445m or 41%. The principal reason for this increase is the £352m decrease in the pension liability from £1,536m to £1,184m. This is also reflected in the balance sheet for the group.

71. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. Movements in the value of the real discount factor, used to estimate the current value of future pensions, can have a significant impact on the value of the pension liability. The real discount factor has increased from 0.8% at March 2015 to 1.3% at March 2016. As a higher real discount rate results in a lower value for pension liabilities, the increased rate at March 2016 has had a positive impact on the net assets value in the balance sheet.

72. To limit the impact on authority's cash flow employers' pension contributions tend to be kept at as constant a rate as possible. However the employer's contribution rate for the Scottish Teachers' Superannuation Scheme increased significantly from 14.9% on 1 April 2015 to 17.2% on 1 September 2015. Such a significant increase places considerable pressure on the council's payroll budget.

### Conclusion on financial sustainability

73. We have concluded that the council currently has an adequate level of reserves and is containing its expenditure within annual budgets. Despite forecasting that it will nearly deliver its savings in 2016/17 arising from its business transformation programme, there remains

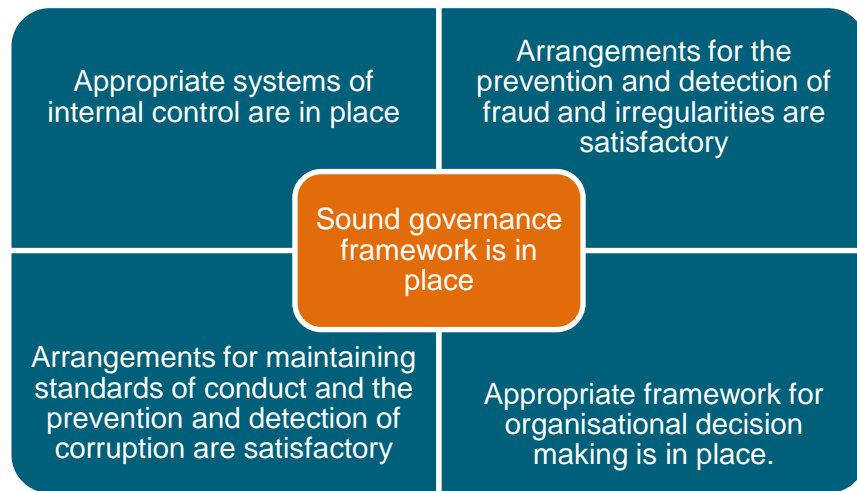
a shortfall in the level of savings identified. The council currently plans to meet this shortfall by using one off balances of £25.2m. Uncertainty over future levels of Government funding along with rising demands for and costs of services will continue to place a strain on financial sustainability and the council's capacity to deliver services at the current level.

#### **Appendix IV action point 1**

## **Outlook**

74. In common with many other councils, Glasgow City Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.
75. Following the European Referendum on 23 June 2016, the United Kingdom voted to leave the European Union. Due to the uncertainty which currently exists over the timing and processes involved, the council is not in a position to define the impact of leaving the European Union on its activities or finances. This will be kept under review as the arrangements are finalised.

# Governance and transparency



76. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
77. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. The council demonstrates many of the characteristics of openness and transparency.

## Corporate governance

78. Based on our observations and audit work our overall conclusion is that the council has an effective framework for supporting governance. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The council's local code is supported by a range of policies and approved procedures which are available on the council's website.

## Internal control

79. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements, including reviews of the council's new system for the billing and collection of Non Domestic Rates and the Accounts Receivable System. Our objective was to obtain evidence to support our opinion on the council's financial statements.
80. We reported our findings to the Finance and Audit Scrutiny Committee in August 2016. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report

financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation.

## Internal audit

81. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. Our review of the internal audit service concluded that it has sound documentation standards and reporting procedures in place and it complies with the main requirements of the Public Sector Internal Audit Standards.
82. To avoid duplication, we place reliance on internal audit work where possible and during the 2015/16 audit we took some assurance from their work in a number of main accounting systems, namely payroll, treasury management, council tax billing and collection and accounts payable.

## ICT audit

83. ICT plays a critical role in the internal control environment and underpins all of the systems used by the council. We tested the operation of the main ICT based controls within the financial

systems during 2015/16 and found these could be relied on for the production of the 2015/16 financial statements.

84. As noted in our 2015/16 Annual Audit Plan, the SAP financial system received a major upgrade in November 2015. The plan for the upgrade involved 11 days of configuration and testing during which the system was not available for financial processing. The project was conducted jointly by CBS and ACCESS and our review found it was managed effectively and completed successfully. There was good communication with staff and a rigorous analysis of risks and impacts. In our testing of financial processing around this critical time, we detected no incidence of data loss or error.
85. The council's business continuity arrangements are managed in-house with the provision of disaster recovery arrangements being provided by ACCESS, one of the council's ALEOs. A major incident occurred in December 2015 when a fault within one of the air handling units in the council's primary data centre resulted in damage to servers and a significant loss of ICT access for most council staff. Details of the incident were reported to the Operational Delivery and Scrutiny Committee on 7 April 2016 and the results of Internal Audit's review of ACCESS business continuity planning and IT disaster recovery arrangements was submitted to the Finance and Audit Scrutiny Committee on 10 May 2016.
86. Internal Audit concluded that the control environment was unsatisfactory and that there are a number of serious control deficiencies where the potential operational risk exposure is significant. The agreed action plan recommends that options for



alternative models of disaster recovery be presented to the council to consider. The timescale for this action was August 2016.

87. Investigations are continuing into alternative disaster recovery sites and improvements to the council's current primary data centre. The latest progress report was agreed by the Strategic Asset Management Planning Board in August 2016. It is essential that the serious weaknesses in disaster recovery arrangements are strengthened in line with the recommendations agreed with Internal Audit and reported to the council for consideration.

#### Appendix IV action point 2

88. Over the past year several public sector organisations have been victims of cyber attacks and related activities. In 2015/16 the council was subject to a number of cyber attacks including spam and phishing emails. The council has a good awareness of the threat posed by cyber attacks and have arrangements in place to manage this risk to the council's information systems and activities. The attempted attacks had been blocked and had no impact on the council's business.

### Arrangements for the prevention and detection of fraud

89. The arrangements for the prevention and detection of corruption in Glasgow City Council are overall satisfactory and we are not aware of any specific issues relating to the processes that we need to record in this report. It is noted that the Annual Governance Statement included in the 2015/16 financial statements refers to an

alleged misappropriation of non domestic rates income by a member of council staff. The details of internal audit's investigation have been passed to Police Scotland and a number of improvement actions to the control environment have been agreed with management. A review of the progress in securing these control improvements is planned by Internal Audit in 2016/17 and the incoming external audit team will also follow up the action plan agreed in our 2015/16 report on the Review of the Non Domestic Rates System.

### National Fraud Initiative in Scotland

90. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police and fire, health bodies and other agencies, to identify circumstances (matches) that might suggest the existence of fraud or error.
91. The council actively follows up the results of the NFI exercises and work on investigating the matches identified progresses well.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption

92. The council's overall arrangements for the prevention and detection of corruption are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Correspondence referred to the local auditor by Audit Scotland

93. One of the roles of the local auditor is to follow up, where appropriate, items of correspondence received from members of the public who express concerns over council activities. One such piece of correspondence related to the sale of land at Westhorn Recreational Ground by the council in April 2009.
94. Our review considered whether the council met the requirements of Best Value, thus demonstrating value for money and adherence to proper governance procedures. We found that while the recommendation of the Executive Committee and the understanding of the District Valuer was that the final market value would be reached by using the services of the District Valuer, an arbiter or another independent party, the final market value of the land was agreed between property agents acting on behalf of the purchaser and the council's in-house chartered surveyors. An independent valuation obtained by the council, subsequent to the sale in November 2013, provided assurance that the sale price was best value. The sale price achieved by the council was approximately three times higher than the retrospective valuation of the land.
95. In 2011/12 we followed up correspondence received relating to the disposal of assets on which there were economic development burdens imposed by the council. We reported in October 2012 that the council had not actively monitored compliance with these economic development burdens. On enquiry we established in November 2013 that the council was initiating court proceedings

requiring the purchaser to carry out the works as included in the terms of the original asset disposition. We have followed up this issue again as part of the 2015/16 audit and have found that court action was served in June 2016. It has been 4 years since we first reported this to members and we are advised that court action was delayed due to the fact that throughout this period there continued to be dialogue between the parties on the improvement works required. Commitments were provided by the purchaser to undertake the works as covered by the economic burdens, some of which were eventually fulfilled. This made it difficult to agree the works to be included in the court action.

### Appendix IV action point 3

## Statutory objections to the accounts

96. A statutory objection was made regarding the 2015/16 financial statements of Glasgow City Council and Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.
97. We determined that the points raised did not meet the criteria to be considered as an objection to the accounts and treated the matter as correspondence received. In following up this correspondence we have held discussions with senior council officers and reviewed supporting papers including an analysis of the LOBOs held by the

council and comparable PWLB rates of interest and the council's treasury management policies and controls.

98. Based on our work we can conclude that the interest rates on the council's LOBOs were lower than the comparable PWLB rates available at the time, the option to propose or impose a new fixed interest rate has never been exercised by the lenders and that the potential for debt restructuring is kept under regular review by the council as part of its treasury management arrangements. There are no further issues we wish to raise in this report.

## Transparency

99. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the council is making decisions and how it is making best use of its resources. The council demonstrates the characteristics of openness and transparency by:
- holding meetings of the council and its committees in public and ensuring papers are readily available for review on its website
  - making information on its performance available to the public
  - including useful information on how to access services on its website
  - including details of council members and a copy of their register of interests on its website.

## Freedom of Information requests

100. The total number of freedom of information (FOI) requests received by the council has been steadily increasing. There were 2,762 FOI requests received over the period May 2015 to April 2016. The council has a target of responding to FOI requests within 20 working days of receipt. Overall the council performs well in responding to requests, with 89% being closed within the 20 day deadline.

## Integration of health and social care

101. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
102. The Glasgow City Integration Joint Board was established on 6 February 2016 and the first meeting of the Board took place on 8 February 2016. The Board has continued to meet monthly to approve many aspects of the governance, planning and financial frameworks. The Audit Scotland Report of December 2015 on [Health and social care integration](#) was submitted to the March 2016 meeting of the Integration Joint Board. The Board has taken the positive step of approving an action plan prepared in response to the report's recommendations showing planned actions and responsible officers. This could be further strengthened by the agreement of target dates for the completion of priority actions.

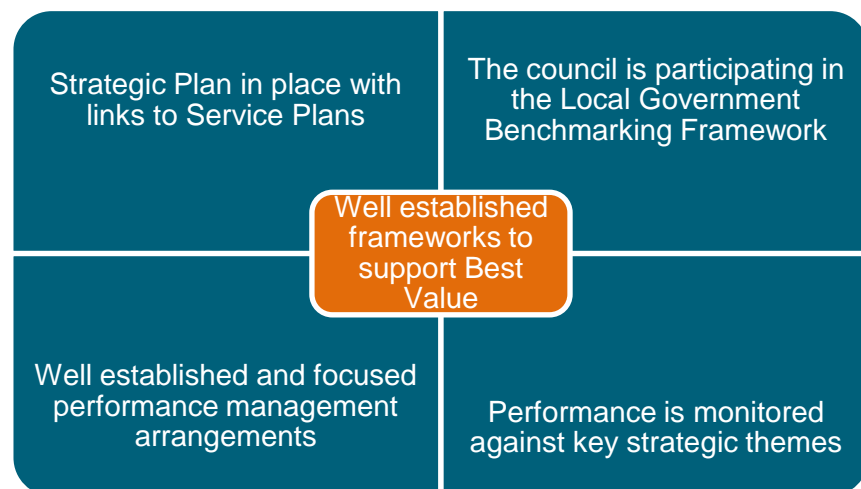
## Local scrutiny plan

103. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to the Finance and Audit Scrutiny Committee on 15 June 2016.
104. The Local Area Network identified the need to carry out specific scrutiny within the council's Homelessness Service. The council continues to fail to always deliver its statutory duty to homeless households. Whilst the council had developed an improvement plan, improved outcomes for service users have not yet been delivered. The council recognises this and has recently revised its improvement plan and developed an accountability framework which contains performance targets. It is working with a range of stakeholders to deliver the plan. The Scottish Housing Regulator (SHR) will continue to engage closely with the council to monitor the delivery of the improvement plan and the achievement of targets and timescales.
105. In addition the SHR established that the council has let a number of residential properties that it owns under Scottish Secure Tenancies. The council has identified 6 such properties held by Education Services and Land and Environmental Services. As such the council is a social landlord, and the provisions of the Scottish Social Housing Charter and Scottish Housing Quality Standard (SHQS) apply to the tenants and properties concerned. The SHR will engage with the council to ensure it progresses its proposed measures to comply with the provisions of the Scottish Social Housing Charter and the Scottish Housing Quality Standards.

## Outlook

106. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.
107. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

# Best Value



- 108.** Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Best Value

- 109.** Overall the council has sound frameworks for supporting Best Value. There are clear strategic priorities in place which link to Services' Annual Service Plans and Improvement Reports and there is a focused approach to monitoring and reporting performance.

## Procurement

- 110.** The need for a lean and efficient procurement service features highly in the council's Transforming Glasgow programme. The council's Corporate Procurement Strategy for 2016-2018 was approved in May 2016. This focuses on the objectives of ensuring legal and governance compliance, achieving savings, securing efficiency and delivering a sustainable procurement service. A prioritised action plan has been agreed which will be monitored monthly by the council's Corporate Procurement Advisory Board.

## Shared services

- 111.** The council works jointly with various outside organisations in the planning and delivery of joint initiatives and projects aimed at improving efficiency. A major aspect of the council's Transforming Glasgow programme is to maximise the opportunities for the sharing of services across the council and its ALEOs and to remove areas of inefficiency and unnecessary duplication. The progress of Transforming Glasgow projects is regularly reported in detail and actively monitored by the council's senior managers.

## Following the public pound

- 112.** The council has a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on Funding External Bodies and Following the Public Pound. This code is based on the premise that public money should be used properly and that Best Value is being secured.

113. Many of the council's services which are key to the delivery of the council's priorities and objectives are provided on its behalf by Arm's Length External Organisations (ALEOs). As such it is essential that the council operates effective governance and performance management arrangements over its ALEOs.
114. The council is currently carrying out a detailed review of its ALEOs as part of its Transforming Glasgow programme and it has set a savings target of £16.4m to be achieved by its ALEOs in 2016/17. In addition to these savings the council budget anticipates contributions from a number of ALEOs totalling £12m in 2016/17.
115. Current estimates forecast that the ALEOs are likely to deliver £14m or 85.5% of the target savings and the overall forecast for ALEOs for 2016/17 is a deficit of £1.9m compared to a budgeted surplus of £0.003m.
116. The Hydro and Collegelands car parks, managed by the council's ALEO City Parking, have been included in the group at a total negative value of £31.9m. The valuations are based on estimates of future trading potential and profit levels. Such high negative valuations indicate that these specific car parks will be in a loss making position over the medium to long term. A review of City Parking is to be carried out as part of the council "family" review.
117. The council recognises the financial pressures faced by its ALEOs. Budgets are closely monitored and specific risks have been recognised relating to failure to deliver efficiencies through the Transforming Glasgow Programme and to return the planned surpluses to the council.
118. The council's subsidiary Jobs and Business Glasgow (JBG) has been subject to significant challenges during 2015/16. These have included:
- changes to the senior management team. Up until 27 January 2016 JBG had a senior management team of eight senior managers. The Chief Executive and three senior managers were suspended from their posts in January 2016. Further senior managers have left the organisation, leaving only three of the original eight members at March 2016
  - changes to Board members. There were two resignations during the year of Partner Directors (Councillors of Glasgow City Council) and four resignations of Independent Directors. There were four vacancies on the Board at August 2016
  - reductions in staffing levels. To ensure future financial sustainability, JBG introduced a voluntary severance scheme for staff. This has resulted in the removal of 151 posts
  - financial pressures as a result of the repayment of European funding and a general reduction in overall funding levels.
- Appendix IV action point 4**
119. A report was submitted to the council's Executive Committee on 3 March 2016 on the proposals for the future structure of City Building (Glasgow) LLP. The report listed the following options for the provision of building services to Glasgow Housing Association, a subsidiary of the Wheatley Group and referred members to a detailed copy of the Options Paper in the members' library :
- No change

- A joint venture between the council and the Wheatley Group
  - Wheatley Group goes out to tender
  - Wheatley Group take their work in house.
- 120.** The report to the Executive Committee only described aspects of the joint venture option between the council and the Wheatley Group and made no reference to the other listed options. We are advised that members' briefings were held in private with each political group on the options paper prior to the public meeting of the Executive Committee. The briefings were the forums for discussion on the options.
- 121.** As recommended by The Accounts Commission report "Options appraisal: are you getting it right?" (March 2014), options appraisal reports should contain an objective appraisal of all available options and that the nature and extent of the scrutiny and challenge that has taken place is transparent and allows for public scrutiny.
- 122.** Members of the Executive Committee agreed that discussions between the council, Wheatley Group and City Building (Glasgow) LLP be pursued with a view to agreeing Joint Venture arrangements and ensuring that a suitable financial, legal, commercial and operational model be put in place. We are advised that the Executive Committee will receive a further report at its meeting on 8 December 2016 which will be for final approval by members of the joint venture between the council and the Wheatley Group.

#### **Appendix IV action point 5**

- 123.** The council's ALEO, ACCESS is responsible for the provision of ICT and property management services. The current contract, which has been in place since 2008, is due to end in March 2018 and the council intends to select a new provider through a competitive tendering exercise. The council recognises the retender of this contract as one of the top risks posed for the wider "Glasgow family" and we identified it as a risk on our 2015/16 Annual Audit Plan.
- 124.** Our review of progress to date has found that a number of key tasks still remain under development. An initial list of service delivery options have been identified, from which the preferred options for further development were to be agreed with the Chief Executive in August 2016. Although ICT is an aspect of Transforming Glasgow, it is yet to have a formal place in the governance framework with progress reports going, so far, to the council's ICT Advisory Board.
- 125.** Given the scale of the current contract and the critical role that ICT will play in supporting the council's business transformation programmes, actions should continue to ensure the project is adequately resourced and project managed and an appropriate procurement process is followed.

#### **Appendix IV action point 6**

### **Performance management arrangements**

- 126.** The council's performance management framework is well established and embedded in management monitoring and reporting processes. Performance is monitored against the key themes included in the council's Strategic Plan and is reported to

the council's Extended Council Management Team and the policy development and scrutiny committees. Each service in the council produces an Annual Service Plan and Improvement Report which outlines key performance measures as well as budget proposals and targets.

- 127.** The council participates in the Local Government Benchmarking Framework (LGBF). The council's performance in 2014/15 has been measured against the LGBF and was reported to the Operational Delivery Scrutiny Committee in May 2016. The report includes 3 years of comparative data across councils and highlights specifically the council's indicators which were ranked within the highest or lowest eight local authorities. Although the report does not make a value judgement about a high or low ranking due to impacting factors such as local choices, it provides members with an overview of the council's performance in key service areas across both family group members and all other local authorities.
- 128.** The LGBF is only one way of assessing the council's delivery of Best Value and the council has emphasised in its guidance for 2016/17 the importance of services reporting the outcome of all benchmarking exercises carried out.

### Overview of performance in 2015/16

- 129.** The council measures performance against a Corporate Scorecard. This includes a suite of 45 performance indicators grouped under each of the council's key themes which are reported quarterly to the Extended Corporate Management Team. The final report for

2015/16 shows that 69% of the indicators were ranked green (within 2.49% of target performance) with 3% amber (within 2.49% to 4.99% outwith target performance) and 28% red (5% or more outwith target performance). The proportional breakdown of the rankings remains fairly consistent over time. It is noted that the indicator on the reviews of residential care placements is to be removed from the scorecard in 2016/17 as it does not reflect all of a resident's review activity. This has been an indicator which has always been ranked as under performing and we have raised concerns about this indicator in our previous Annual Audit Reports. If the indicator is to no longer be measured, it is important that a more reliable replacement be introduced for this key area of service delivery.

- 130.** The council's Annual Performance Report for 2015/16 presents the extent of progress against the priorities included in the Council Strategic Plan 2012 to 2017. This was submitted to the Executive Committee in August 2016 and reports that of the 127 commitments included in the Council Strategic plan, 96% of commitments have been ranked as green in that they have been met or are progressing as planned.

### Statutory performance indicators (SPIs)

- 131.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.



132. For 2015/16 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equality and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

133. The council's internal audit section carried out a verification exercise for the benchmarking return submitted to the Improvement Service as part of SPI 3. Processes were found overall to be satisfactory. However opportunities for improvement have been identified in relation to the asset management indicator such as the requirement to retain supporting evidence of all surveys undertaken and ensuring surveys are completed in line with the requirements of the direction. Elements of SPI 1 and 2 were reviewed by internal audit as part of other audit assurance work undertaken in the year.

## Local performance audit work

134. Audit Scotland published a report on [Scotland's Public Sector Workforce](#) in November 2013. Our follow up review of the council's performance against the report found that many aspects of the recommended actions were in place.

## National performance audit reports

135. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix III](#). Glasgow City Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

## Equalities

136. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.

137. The council published its report in April 2015 on mainstreaming equality in service delivery and progress towards its 10 equality outcomes. Since then progress has continued. An approach has been agreed by members for developing a new set of equality outcomes to apply from 2017 to 2021. The council has appointed an Executive Member for Equalities who chairs the Strategic Equality Group of senior officers from across the council and its ALEOs.

## Outlook

- 138.** In common with other councils, Glasgow City Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things.
- 139.** The successful delivery of the council's Transformation Programme will be essential for both securing savings and the redesign of council services and improved work practices.

# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>SAP upgrade</b></p> <p>The council's financial management system SAP was upgraded in November 2015. This resulted in the system and all feeder systems being unavailable for 11 days. Any migration of balances and transactional data carries risks to the completeness and accuracy of the information required to prepare annual accounts.</p>	<ul style="list-style-type: none"> <li>• A dedicated corporate sponsor is in place.</li> <li>• The project board met frequently around the time of the migration to the new system.</li> <li>• Extensive testing was carried out prior to the transfer of data.</li> <li>• Verification testing was carried out during the implementation of the new system.</li> <li>• A continuity plan was put in place to ensure that essential services were not affected by the system downtime.</li> </ul>	<ul style="list-style-type: none"> <li>• We considered the adequacy of the management arrangements for the planning and monitoring of the SAP upgrade.</li> <li>• We tested reconciliations and account balances before and after the upgrade.</li> </ul> <p>The SAP upgrade was well managed and our sample testing did not highlight any errors in account balances.</p> <p>We have no issues to raise.</p>
<p><b>New NDR system</b></p> <p>The council introduced a new NDR billing and collection system in June 2015.</p> <p>The transition to the new system could impact on the accuracy of the data held and result in</p>	<ul style="list-style-type: none"> <li>• A dedicated corporate sponsor and project board was in place.</li> <li>• Extensive testing of the system was carried out before it went live.</li> </ul>	<ul style="list-style-type: none"> <li>• We carried out a review of the arrangements for the migration of data between the old and new NDR systems.</li> <li>• We reviewed balance reconciliations and carried out tests on a sample of account payers' balances between the old and</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>errors in billing customers and collecting income.</p>		<p>new systems.</p> <p>Our report on the Review of the NDR system was presented to the Finance and Audit Scrutiny Committee in August 2016.</p> <p>This concluded that while controls were reliable for the production of the 2015/16 financial statements there was scope to further improve the effectiveness of procedures.</p>
<p><b>Management override of controls</b></p> <p>As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Internal audit reviews a range of financial systems and related controls and provides an opinion on the control environment.</li> <li>• There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for staff which incorporates whistleblowing and fraud policies.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed accounting estimates.</li> <li>• We evaluated significant transactions that are outside the normal course of business.</li> <li>• We carried out focused testing of accruals and prepayments.</li> <li>• We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</li> <li>• We tested a sample of journal postings in the ledger to assess the nature of the transaction.</li> </ul> <p>We did not identify any instances of management manipulating accounting records or overriding controls.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Income recognition</b></p> <p>Income from external sources can present a risk of fraud. Particular areas for concern include: council tax, non domestic rates and income from sundry debtors. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA 240.</p> <p>Glasgow City Council receives a significant amount of income in addition to Scottish Government funding. The size and diversity of income streams flowing to the council means that there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> <li>• Internal controls for these systems operate effectively.</li> <li>• There is effective budgetary control by management.</li> <li>• Fraud reports are regularly monitored and information across Scotland is routinely shared.</li> <li>• There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for staff which incorporates both whistleblowing and fraud polices.</li> <li>• The council has a Corporate Fraud Policy in place and has established a Corporate Fraud Team staffed by experienced officers.</li> </ul>	<ul style="list-style-type: none"> <li>• We evaluated council's accounting policies for income and expenditure.</li> <li>• We tested a sample of journal entries.</li> <li>• We reviewed accounting estimates.</li> <li>• We carried out an analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</li> <li>• We substantively tested a sample of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</li> <li>• We carried out a review of the Accounts Receivable System. Our report on the Review of the Accounts Receivable system was presented to the Finance and Audit Scrutiny Committee in August 2016.</li> </ul> <p>Our report concluded that while controls were reliable for the production of the 2015/16 financial statements there was scope to improve the effectiveness and efficiency aspects of the income raising and recovery processes.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b>		
<p><b>Financial planning</b></p> <p>The council has identified a need to make savings totalling £130 million in the years 2016/17 to 2017/18. Given the significant savings already made through service reforms and workforce reductions, achieving the planned savings will be a significant challenge.</p> <p>It may not be possible to achieve savings without adversely affecting the level and quality of services.</p>	<ul style="list-style-type: none"> <li>• Progress reports on the transformation strategy and programme are regularly presented to the Executive Committee.</li> <li>• Four weekly budget monitoring reports are prepared and reported to the Executive Committee and Finance and Audit Scrutiny Committee for consideration.</li> <li>• These reports are also provided to the Corporate Management Team and Extended Council Management Team for consideration.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed financial monitoring reports to the Finance and Audit Scrutiny Committee and Executive Committee.</li> <li>• We reviewed the Transformation Programme monitoring reports to the Extended Council Management Team.</li> </ul> <p>Performance against the revenue budget was closely monitored throughout 2015/16.</p> <p>There has been very detailed and focused reporting of progress in the Business Transformation programmes. Latest reports show that the council forecasts that £53.2m of savings will be secured in 2016/17, which is 92.5% of the business transformation target.</p> <p><b>See Appendix IV action point 1</b></p>
<p><b>European funding</b></p> <p>The council is aware that one of its subsidiaries has not fully complied with European funding regulations. The council’s internal auditors carried out a review of the council’s processes for checking and approving grant claims for</p>	<ul style="list-style-type: none"> <li>• The council commissioned Ernst and Young to carry out a review of its procedures for the management and monitoring of ESF monies granted to outside bodies.</li> </ul>	<ul style="list-style-type: none"> <li>• We have taken assurance from Internal Audit’s investigation into areas of non-compliance with European funding grant terms and conditions and associated systems and controls.</li> <li>• We met with the external auditors of the</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>European Structural Funds (ESF). The audit found that the control environment was not adequate to ensure that accurate claims were submitted and it identified areas where the grant conditions had not been complied with.</p> <p>The council may have to repay grant funding which would have an adverse impact on the sustainability of projects previously in receipt of this funding.</p>		<p>council's ALEO Jobs and Business Glasgow which had been subject to an audit of European funding by the Scottish Government</p> <p>Internal Audit has agreed an action plan with management to improve controls and processes surrounding European funding grants. This report was put to the Finance and Audit Scrutiny Committee in May 2016. This is to be followed up by Internal Audit in 2016/17.</p> <p>The balances repayable have been correctly accounted for in the 2015/16 financial statements.</p> <p>We have highlighted at Table 1 as a significant audit finding the Scottish Government's ongoing investigation into European Funding.</p>
<p><b>ICT and property contract</b></p> <p>The council's contract with ACCESS for ICT and facilities management comes to an end on 31 March 2018. The council has begun the process of looking at options for how these services will be provided.</p>	<ul style="list-style-type: none"> <li>• The review of ICT and facilities management forms part of the council's transformation strategy and programme.</li> <li>• The council is developing a new ICT strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• We have assessed the progress by the council in securing a replacement for the current contract for the provision of ICT and facilities management which ends 31 March 2018.</li> </ul> <p>We have obtained management assurance that</p>

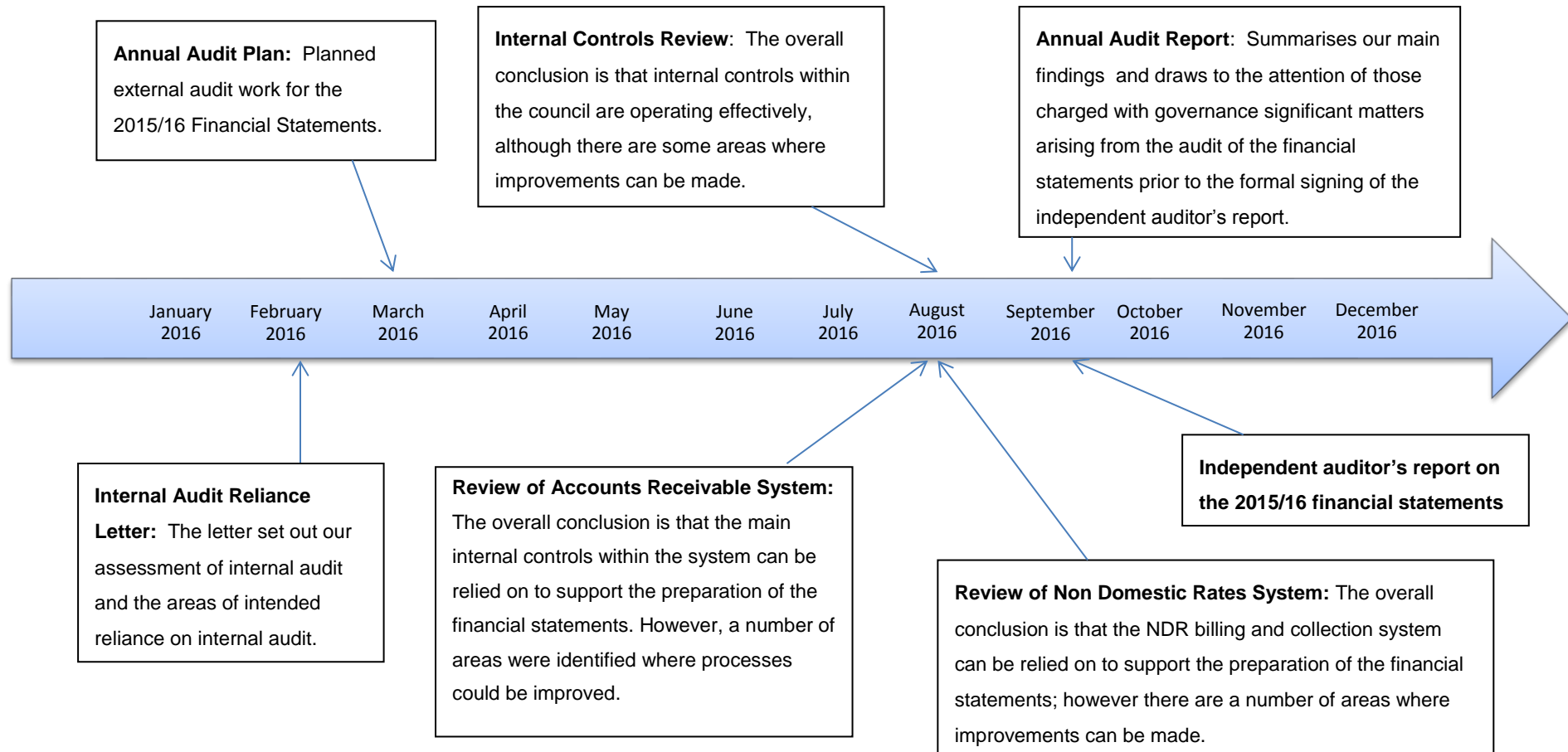
Audit Risk	Assurance procedure	Results and conclusions
<p>The preferred option for the future delivery of the council's ICT and facilities management services is not in place by the end of the current contract period.</p>		<p>a detailed options appraisal has been carried out and a Strategic Business Case on the options for the future provision of ICT services is being completed and will be presented to Executive Committee, together with an accompanying report.</p> <p><b>See Appendix IV action point 6</b></p>
<p><b>Business continuity</b></p> <p>In December 2015 there was a significant incident affecting ICT hardware at the council's data centre. This caused severe damage to equipment hosting applications and data for many of the council's systems, including the email system, the social work client database, pension fund system, and the council tax and benefits system. The council's main financial system was largely unaffected, however most staff could not logon to the council network for four days.</p> <p>This incident indicates a potential weakness in the council's business continuity arrangements.</p>	<ul style="list-style-type: none"> <li>Internal audit is planning to review the council's business continuity arrangements.</li> <li>A report on the incident is being prepared by ACCESS to be submitted to the Operational Delivery Scrutiny Committee.</li> </ul>	<ul style="list-style-type: none"> <li>We reviewed reports to the Extended Council Management Team, Operational Delivery Scrutiny Committee and the Audit and Finance Scrutiny Committee.</li> <li>We discussed with responsible officers the steps taken to improve controls.</li> <li>We reviewed a sample of feeder system balances both before and after the downtime to ensure the accuracy and completeness of balances.</li> </ul> <p>Our sample testing did not highlight any instances of potential data loss.</p> <p>Discussions are ongoing between the council and ACCESS on the identification of an alternative disaster recovery site and the improvements to be carried out in the existing data centre.</p> <p><b>See Appendix IV action point 2</b></p>



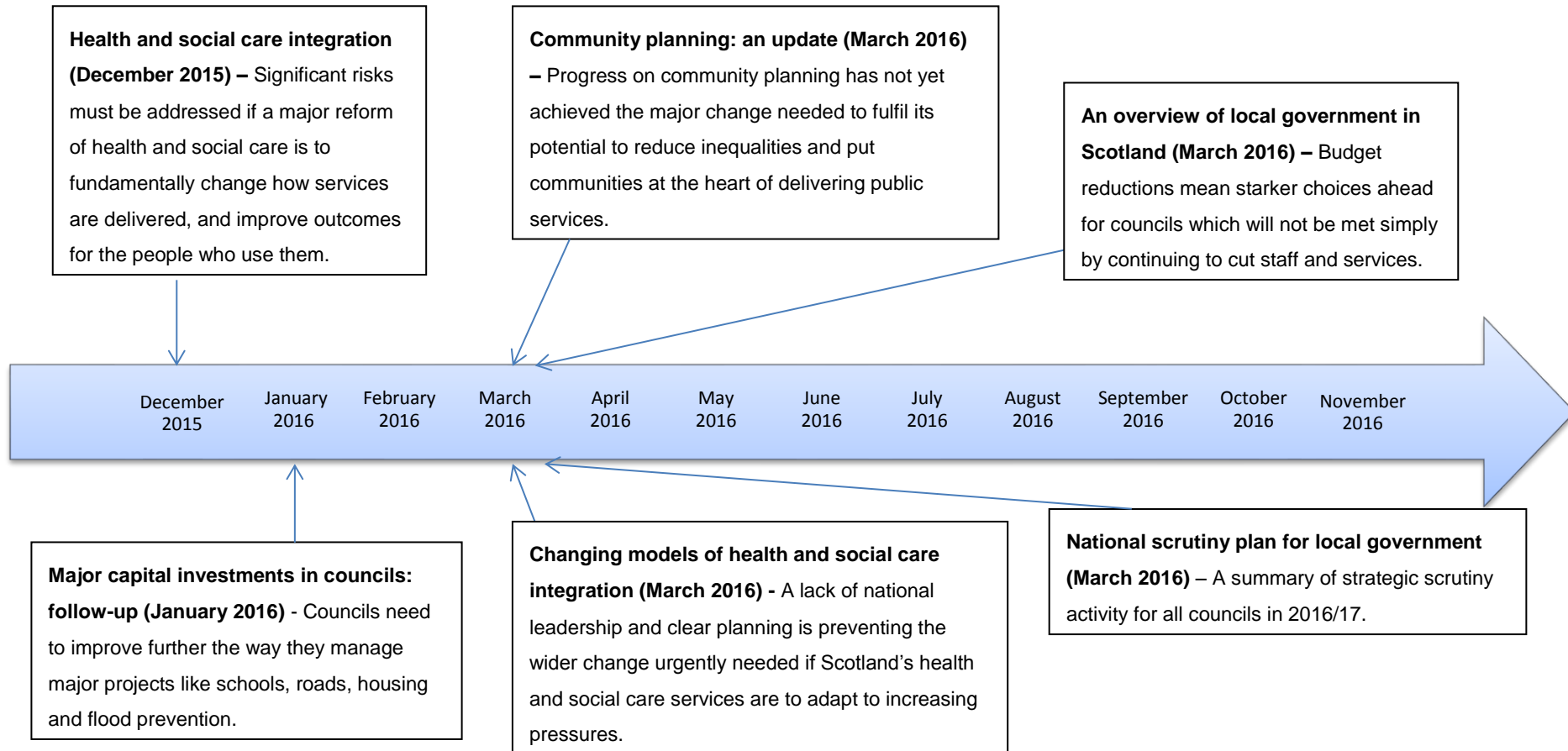
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Cyber attacks</b></p> <p>Over the past year several public sector organisations have been victims of cyber attacks and related activities.</p> <p>If the council does not respond adequately to such attacks this could result in disruption to council services. It could also have a financial impact through fraud and financial penalties for data protection breaches.</p>	<ul style="list-style-type: none"> <li>Internal audit carry out a regular programme of ICT audits.</li> <li>The council have no recent history of disruption due to cyber attacks.</li> </ul>	<ul style="list-style-type: none"> <li>We reviewed how the council protects its information and systems from cyber attacks.</li> </ul> <p>The council has a good awareness of the threat of cyber attacks and has put in place arrangements to prevent these and to mitigate their impact where they cannot be prevented.</p> <p>In 2015/16, the council was subject to ongoing cyber attacks in the form of malware, spam emails and phishing emails. These have been blocked with no impact to the business, operationally or financially.</p>
<p><b>Workforce strategy</b></p> <p>The council's transformation strategy includes significant staff related savings estimated as being equal to 1,500 full time equivalent posts across the council and ALEOs. The council is developing a workforce plan to set out how it will reshape its workforce.</p> <p>A significant reduction in the council's workforce could impact on its ability to deliver the level and quality of services expected by residents.</p>	<ul style="list-style-type: none"> <li>A major review of the council's ALEOs is ongoing.</li> <li>The council's new workforce strategy will be presented to the Executive Committee in early 2016.</li> </ul>	<ul style="list-style-type: none"> <li>We considered the council's arrangements for workforce planning as part of the Business Transformation Programme.</li> </ul> <p>The council introduced a new comprehensive approach to workforce planning in 2015/16 to apply across the council and its ALEOs.</p> <p>We have no issues to raise.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Social work payments</b></p> <p>There have been instances in other local authorities where payments continued to be made to private care providers for residents who had died or were no longer in receipt of care services.</p> <p>The council does not maintain accurate client records which results in payments being made where no service has been provided.</p>	<ul style="list-style-type: none"> <li>The council investigated a number of cases identified through the National Fraud Initiative where a resident had died but the council may not have been notified. No issues were noted.</li> </ul>	<ul style="list-style-type: none"> <li>We reviewed the council’s arrangements for updating records on the Carefirst system to accurately reflect any care home residents who had died or who were no longer in receipt of care services.</li> <li>The results of our review were reported as part of our Review of Internal Controls presented to the Finance and Audit Scrutiny Committee in August 2016.</li> </ul> <p>While we identified a number of actions for improvement, we can take assurance from the current procedures that the council has limited exposure to duplicate payments.</p> <p>Management are to review the current processes as part of the Business Transformation programme.</p>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1	73	<p><b>Issue</b></p> <p>The council is forecasting a shortfall in the level of savings achieved in 2016/17 and plan to partly meet this by using reserve balances. Current estimates are that £25.2m will be allocated from one off balances to support the budget. The need for further savings continues in 2017/18.</p> <p><b>Risk</b></p> <p>The planned efficiencies and changes in working practises identified in the council's Business Transformation Programme fail to secure the necessary savings and benefits in line with target.</p> <p><b>Recommendation</b></p> <p>The council continues to closely monitor and manage the delivery of its Business Transformation Programme and other savings plans.</p>	The council will continue to monitor and manage the transformation programme as outlined in this report.	<p>Executive Director of Financial Services</p> <p>Ongoing</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2	87	<p><b>Issue</b></p> <p>Discussions are ongoing with ACCESS on the identification of alternative disaster recovery sites for the council and the necessary improvements to business continuity.</p> <p><b>Risk</b></p> <p>There continues to be serious control deficiencies within the council's arrangements for disaster recovery and business continuity.</p> <p><b>Recommendation</b></p> <p>Improvements to the council's disaster recovery and business continuity arrangements should be secured as a matter of priority.</p>	<p>The first workshop between the Council and ACCESS has taken place and staff members from both the Council and ACCESS have visited the new Data Park premises.</p> <p>The Council is in discussion with ACCESS regarding some further remedial work to the City Park Data Centre to assist in further stabilisation of the environment. ACCESS is preparing a proposal for the Council to take this work forward.</p>	<p>Head of Corporate Governance</p> <p>March 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3	95	<p><b>Issue</b></p> <p>There have been considerable delays in initiating court action requiring the purchaser of a council building to comply with the economic development burdens imposed by the council.</p> <p><b>Risk</b></p> <p>Economic development burdens attached to the disposal of an asset are not enforced.</p> <p><b>Recommendation</b></p> <p>Action should be is taken on a timely basis to enforce any economic development burdens imposed on the sale of assets by the council.</p>	<p>A process will be developed whereby economic burdens are recorded, monitored and the appropriate action taken in the event of non compliance.</p>	<p>Executive Director of Development and Regeneration Services.</p> <p>Managing Director, City Property (Glasgow) LLP.</p> <p>October 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4	118	<p><b>Issue</b></p> <p>During 2015/16, the council's subsidiary Jobs and Business Glasgow has been subject to significant changes in its senior management team and membership of the Board. A considerable number of posts (151) have been removed through a voluntary severance scheme and there are financial pressures arising from depleted reserve balances and cuts in funding.</p> <p><b>Risk</b></p> <p>The body is not financially sustainable and the reduction in staff and loss of experience adversely impacts on services.</p> <p><b>Recommendation</b></p> <p>The council should keep under close review the performance and financial position of its subsidiary Jobs and Business Glasgow.</p>	<p>Jobs and Business Glasgow have taken significant actions to ensure that they have a financially sustainable business model.</p> <p>A balanced budget will be produced for 2017/18 and cash flow will be carefully managed in the interim to ensure that they remain a going concern.</p> <p>Staff resources have been restructured to meet a new operating model to focus resources on areas where impact can be maximised.</p>	<p>Executive Director of Financial Services.</p> <p>Interim Chief Executive Jobs and Business Glasgow.</p> <p>March 2017</p>



No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5	122	<p><b>Issue</b></p> <p>A report was submitted to the Executive Committee meeting on 3 March 2016 on the future structure of City Building (Glasgow) LLP. The report listed four alternative options but only described in detail the option of a joint venture with the Wheatley Group. The report did not include an objective appraisal of all options. Members at the meeting were referred to a copy of an options paper placed in the members library and members briefings were held in private with each political group before the Executive Committee meeting.</p> <p><b>Risk</b></p> <p>The nature and extent of scrutiny exercised by members was not transparent, nor was sufficient material made available for public scrutiny, whilst still respecting commercial confidentiality.</p> <p><b>Recommendation</b></p> <p>Decisions on the appraisal and selection of preferred options should follow good practice to ensure public transparency in the decision making process.</p>	<p>An Options Paper was produced and was placed in the members' library prior to the Executive Committee report dated 3 March 2016. The committee paper also referred to the Options Paper. Elected members were briefed on the Options Paper and had the opportunity to read the Options Paper in advance of Executive Committee and had further opportunity to ask or raise queries regarding the report and the options at the meeting of 3 March 2016.</p> <p>A detailed contractual structure is being put in place which will cover issues such as the Service Level Agreement charging model; open book accounting; detailed governance arrangements; a number of key material matters which must be agreed by the Members i.e. GCC and Wheatley Group including agreement on the Annual Business Plan; and any external contracts will be subject to a competitive procurement exercise in accordance with procurement legislation.</p>	<p>Head of Legal and Administration.</p> <p>December 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6	125	<p><b>Issue</b></p> <p>The council's contract with ACCESS for the provision of ICT and property management is due to end in March 2018. The retendering or restructuring of the council's ICT and property management services will be a major and time consuming exercise. Our review of progress to date has found that a number of key tasks still remain under development.</p> <p><b>Risk</b></p> <p>There is a risk that the preferred option for future service delivery is not in place by the end of the current contract period.</p> <p><b>Recommendation</b></p> <p>Actions should continue to ensure the project is adequately resourced and project managed and an appropriate procurement process is followed.</p>	<p>A detailed options appraisal has been carried out and a Strategic Business Case on the options for the future provision of ICT services is being completed and will be presented to Executive Committee, together with an accompanying report.</p> <p>Elected members, staff and trade unions have been briefed and will continue on the outcome of the options appraisal and will be briefed on the Strategic Business Case in advance of Executive Committee to allow for any questions to be answered.</p> <p>A draft Strategic Business Case for the future options for property has been developed and is in the process of being discussed with the Council's Management Team.</p>	<p>Director of Governance and Solicitor to the Council.</p> <p>October 2016</p> <p>Ongoing</p>