



Glasgow City Region – City Deal Cabinet Joint Committee

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

August 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/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Elaine Barrowman as the external auditor of Glasgow City Region – City Deal Cabinet Joint Committee for the period 2014/15 to 2015/16.

This report has been prepared for the use of Glasgow City Region – City Deal Cabinet Joint Committee 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

- Unqualified auditor's report on the 2015/16 financial statements.

Financial management and sustainability

- The Cabinet's financial management arrangements are satisfactory, however members could be provided with more detailed information on the financial performance of City Deal programmes.
- The Cabinet's Programme Management Office is fully funded by contributions from member local authorities and therefore we have concluded that its financial position is currently sustainable.

Governance and transparency

- The Cabinet's governance arrangements provide an appropriate framework for decision making and the Cabinet is open and transparent.
- Systems of internal control operated effectively.
- The Cabinet has effective arrangements for the prevention and detection of fraud and corruption.

Best Value

- The Cabinet is in the process of developing and implementing performance management arrangements for City Deal programmes and projects.

Outlook

Glasgow City Region City Deal covers a 20 year period to 2035, with funding commitments agreed between the UK government, Scottish Government and eight member local authorities. Future funding depends on the outcome of five yearly reviews, the first of which will take place in 2019. It is therefore crucial that the Cabinet can demonstrate the impact of the City Deal programmes. It needs to ensure that City Deal programmes and projects are fully appraised and performance is monitored and reported on a regular basis.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet). The report is divided into sections which reflect our public sector audit model.
2. The management of the Cabinet 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 the Cabinet, 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 local audit reports have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#).
6. [Appendix III](#) 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 the Cabinet understands its risks and has arrangements in place to manage these risks. The Cabinet and Chief Executives' 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 audit appointment. The auditor of the Cabinet from 2016/17 will continue to be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit of the Cabinet and issued an unqualified independent auditor’s report.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of the Cabinet have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Cabinet’s ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary and annual governance statement. We have nothing to report in respect of these statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 9 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. 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 Cabinet on 12 April 2016.
12. 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.
13. 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.

14. 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

15. 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).
16. 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.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Cabinet we set our planning materiality for 2015/16 at £7,132 (1% of gross expenditure). We report all misstatements greater than £100. Performance materiality was calculated at £6,419, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. 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

19. A small 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.

Significant findings from the audit

20. 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 judgement, are significant to the oversight of the financial reporting process.

21. In our view there are no significant findings to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Code of Audit Practice

22. 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; and
 - Value for money.
23. 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

24. In this section we comment on the Cabinet's financial outcomes and assess the Cabinet's financial management arrangements.
25. The Cabinet sets an annual budget for its Programme Management Office (PMO) which acts as a secretariat for the Cabinet and a central point for appraisal and monitoring of all aspects of the City Deal. The budget is funded by contributions from the Cabinet's eight member local authorities. Contributions are calculated as a proportion of the PMO budget based on the population of each member authority's area as a percentage of the total population of all member authority areas.

Financial outcomes

26. In 2015/16 the Cabinet reported an underspend against the PMO budget of £89,249. The underspend was mainly caused by lower than expected employee costs due to the PMO not filling all posts in its organisational structure in 2015/16 and a delay in the establishment of the national evaluation panel. The Cabinet does not have the power to hold reserves and it has been agreed that the underspend of £89,249 will supplement 2016/17 funding.

Financial management arrangements

27. As auditors, we need to consider whether local government bodies 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 organisation to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the organisation
 - 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.
28. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the Cabinet complies with the statement's five principles.
29. The main financial management arrangements for the Cabinet are set out in its assurance framework. Based on our accumulated knowledge and review of the framework document these are comprehensive and current.
30. Programme status update reports are presented to each meeting of the Cabinet. Each report provides members with an update on the progress of the three City Deal investment streams (infrastructure,

innovation, and skills and employment) and other activity carried out across the City Deal programmes. The reports also highlight any issues with individual projects. The reports do not provide detailed budget monitoring information for the programmes or individual projects. We understand that the Cabinet's Finance Officers Group considers this information, however it is important that members of the Cabinet are able to scrutinise the financial performance of City Deal programmes.

Refer action plan point 1

31. Programme status reports also include a section covering the PMO budget. This provides a summary of the projected year end position and an explanation of any movements from the previously reported position. Officers have agreed to provide more detailed PMO budget monitoring reports to future Cabinet meetings.
32. As auditors we attend a number of Cabinet meetings each year. Members provide a good level of challenge on the progress of the City Deal programmes and individual projects.

Conclusion on financial management

33. The Cabinet's financial management arrangements are broadly satisfactory, however members could be provided with more detailed information on the financial performance of City Deal programmes.

Financial sustainability

34. Financial sustainability means that the Cabinet has the capacity to meet its current and future objectives.
35. In assessing financial sustainability we are concerned with whether:
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for.
36. Effective long term financial planning is crucial to sustainability.

Financial planning

37. The Cabinet set the 2015/16 budget for the PMO in March 2015. The 2015/16 budget was set at £802,462.
38. The Cabinet agreed the 2016/17 PMO budget in December 2015. The 2016/17 budget was set at £890,037, which is an increase of 11% from 2015/16. The increase is mainly due to:
 - an expected pay award in 2016/17 (employee costs represent 84% of the PMO budget)
 - marketing and communications costs
 - costs associated with the national evaluation panel, which will evaluate the impact of the City Deal.
39. As previously noted, the PMO is fully funded through contributions from member local authorities. Therefore, no budget gaps have been identified.

Conclusion on financial sustainability

40. The Cabinet's PMO is fully funded by contributions from member local authorities and therefore we have concluded that its financial position is currently sustainable.

Outlook

41. The Cabinet and the PMO were established to administer the Glasgow City Region City Deal. The City Deal covers a 20 year period to 2035, with funding commitments agreed between the UK government, Scottish government and eight member local authorities. Future funding depends on the outcome of five yearly gateway reviews, the first of which will take place in 2019. These will be based on the work of the Independent Commission on Urban Economic Growth who will submit an assessment to the UK and Scottish Governments on the performance of the City Deal. The national evaluation panel will work with the Commission to assess the City Deal's performance. We are advised that the first gateway review in 2019 will focus on spend and project progress rather than outcomes. As such it is unlikely that the review will result in changes in funding levels.

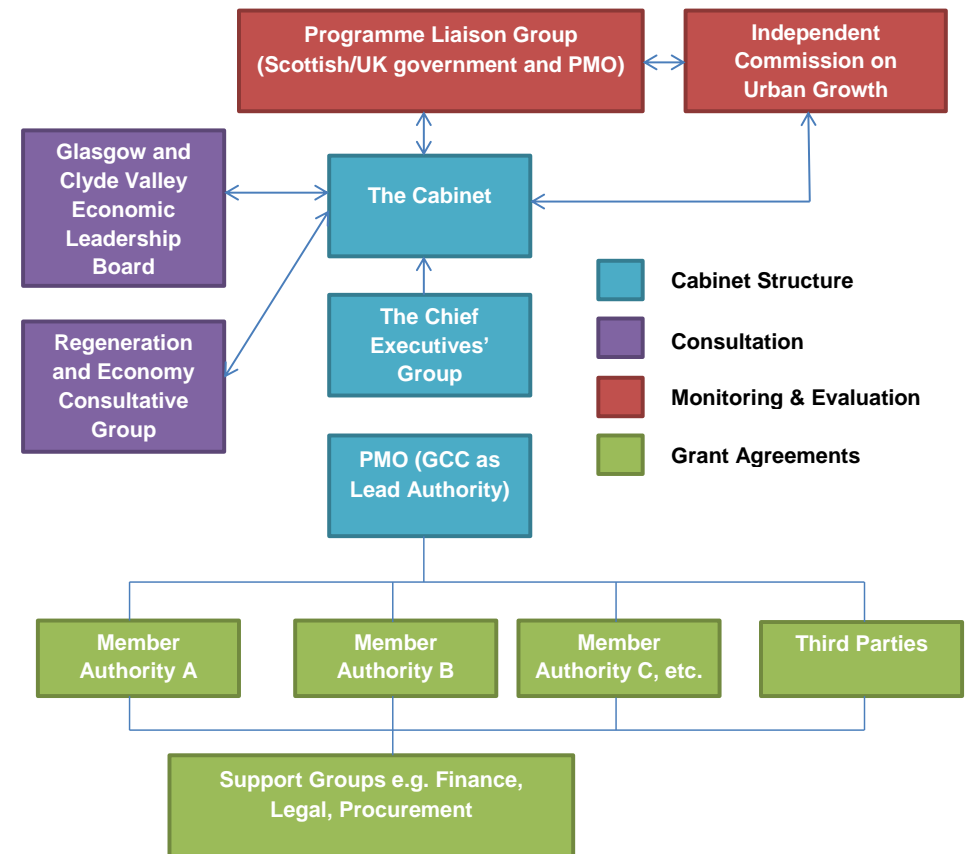
Governance and transparency

42. Members and management of the Cabinet 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 have concluded that the Cabinet’s governance arrangements provide an appropriate framework for decision making.

Corporate governance

43. The Glasgow City Region City Deal assurance framework sets out the governance structures within the Cabinet, the arrangements for business cases and the arrangements for managing and reporting on City Deal projects. The assurance framework was approved by the Cabinet in March 2015 and submitted to the UK and Scottish governments. It was endorsed by both governments which allowed the release of capital funding. A review of the assurance framework is ongoing and officers plan to present a revised framework to the Cabinet in September 2016. The current City Deal governance structure is outlined in exhibit 1 below.

Exhibit 1: City Deal governance structure



The Glasgow and Clyde Valley Cabinet Assurance Framework

44. The main functions of the Cabinet are to:

- determine the strategic economic development opportunities for the Glasgow City Region area

- deliver the City Deal
 - approve the remits of the Independent Commission on Urban Growth, the Glasgow and Clyde Valley Economic Leadership Board and the Regeneration and Economy Consultative Group
 - deal with any areas of activity as delegated to it by the member authorities.
45. The Cabinet is made up of the council leaders of each of the eight member authorities and is chaired by the leader of Glasgow City Council as lead authority. It meets on an eight weekly basis.
46. The Chief Executives' Group comprises the Chief Executives from the eight member authorities. It is responsible for the supervision, management and monitoring of the PMO in delivering the City Deal objectives. The group is chaired by the chief executive of Glasgow City Council.
47. The PMO provides administrative support to the Cabinet and to delivery of the City Deal. It is delivered by Glasgow City Council. The PMO's role is to:
- make recommendations for approval of business cases and monitor and evaluate these
 - report to the Chief Executives' Group, the Cabinet and the UK and Scottish Governments
 - provide administrative and technical services.
48. Glasgow City Council, as lead authority, holds and disburses the City Deal grant funding through grant agreements with member authorities. It also holds the budget for the PMO.
49. A number of support groups have been created to support the delivery of the City Deal and share knowledge and information. These cover the following areas:
- Lead officers group
 - Finance officers group
 - Legal and procurement
 - Transport
 - Economic development
 - Audit.
50. Internal audit carried out a review of compliance with the assurance framework in 2015/16. Internal audit reported that key controls are in place and generally operating effectively for the governance structure of the City Deal. Meetings are taking place as scheduled with member authorities represented. Internal audit made three medium and one low risk recommendations for improvement. We have concluded, based on internal audit's findings and our own observations, that the Cabinet's governance arrangements provide an appropriate framework for decision making.

Local code of corporate governance

51. Glasgow City Council, as lead authority for the Cabinet, is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. 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: Delivering Good Governance in Local Government.

Internal control

- 52. The Cabinet uses the financial systems of Glasgow City Council to prepare its annual accounts. As part of our audit of Glasgow City Council we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the Cabinet's financial statements.
- 53. 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.

Internal audit

- 54. Internal audit provides members and management of the Cabinet 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. To avoid duplication, we place reliance on internal audit work where possible.

- 55. Our review of internal audit concluded that it complies with the main requirements of the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
- 56. Internal audit completed its 2015/16 plan. We placed reliance on its review of compliance with the Glasgow City Region City Deal assurance framework.

Arrangements for the prevention and detection of fraud

- 57. We assessed the Cabinet's arrangements for the prevention and detection of fraud. The assurance framework sets out procedures for managing conflicts of interest to ensure that decisions are made in the interest of the whole Glasgow City region. The Cabinet did not report any instances of fraud in 2015/16.
- 58. The Cabinet has effective arrangements for the prevention and detection of fraud. However, no system can eliminate the risk of fraud entirely.

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

- 59. The arrangements for the prevention and detection of corruption in the Cabinet are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

60. Transparency means that members of the public have access to understandable, relevant and timely information about how the Cabinet is taking decisions and how it is using City Deal funding. We have considered this under various headings including:
- Clarity and presentation of financial statements – a copy of the Cabinet’s unaudited accounts was made available on Glasgow City Council’s website. The format of the accounts complies with the Code of Practice on Local Authority Accounting in the United Kingdom. Narrative sections are written, as far as possible, in plain English to provide the reader with an understanding of the Cabinet’s business
 - Budget monitoring reports
 - Business cases – outline and full business cases for projects seeking City Deal funding are available to the public through the Cabinet papers published on Glasgow City Council’s website
 - Performance reporting
 - Registers of interest – these are available on the websites of the member authorities
 - Withholding information from public scrutiny – we have no evidence that the Cabinet is routinely and unjustifiably withholding information from public scrutiny.
61. Overall we have concluded that the Cabinet is open and transparent.

Outlook

62. Future funding for City Deal programmes will depend on the outcome of the gateway review process and will require the performance and impact of City Deal projects to be reported against overall objectives. As projects continue to develop it is important that the current governance framework remains relevant and it is noted that a review is planned by officers in September.

Best Value

63. Best Value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Cabinet 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.

Performance management

64. The progress of City Deal programmes and projects is monitored by the PMO. The PMO is developing a set of descriptions and definitions for City Deal project outputs. These outputs will be used to support the Independent Commission on Urban Growth and national evaluation panel in their evaluation of the City Deal. The PMO is also continuing to develop a benefit realisation strategy.
65. The formation and approval of the Independent Commission on Urban Growth has not yet been finalised and the national evaluation panel has not been set up. As a result, performance indicators and an evaluation methodology to measure the impact of the City Deal has not yet been developed. Performance indicators for City Deal projects and an evaluation methodology will need to be developed in sufficient time to allow the Cabinet to prepare for the 2019 gateway review.
66. An annual performance report, prepared by the PMO, was due to be presented to the Chief Executives' Group in June 2016. The Chief

Executives' Group agreed to extend this date to August/September so that an annual accounts statement can be included.

Outlook

67. The first gateway review is due in 2019. The Cabinet needs to ensure its performance management arrangements are in place and operating to meet the requirements of the review. It needs to ensure that the outputs of City Deal programmes and projects are fully appraised and performance is monitored and reported on a regular basis.

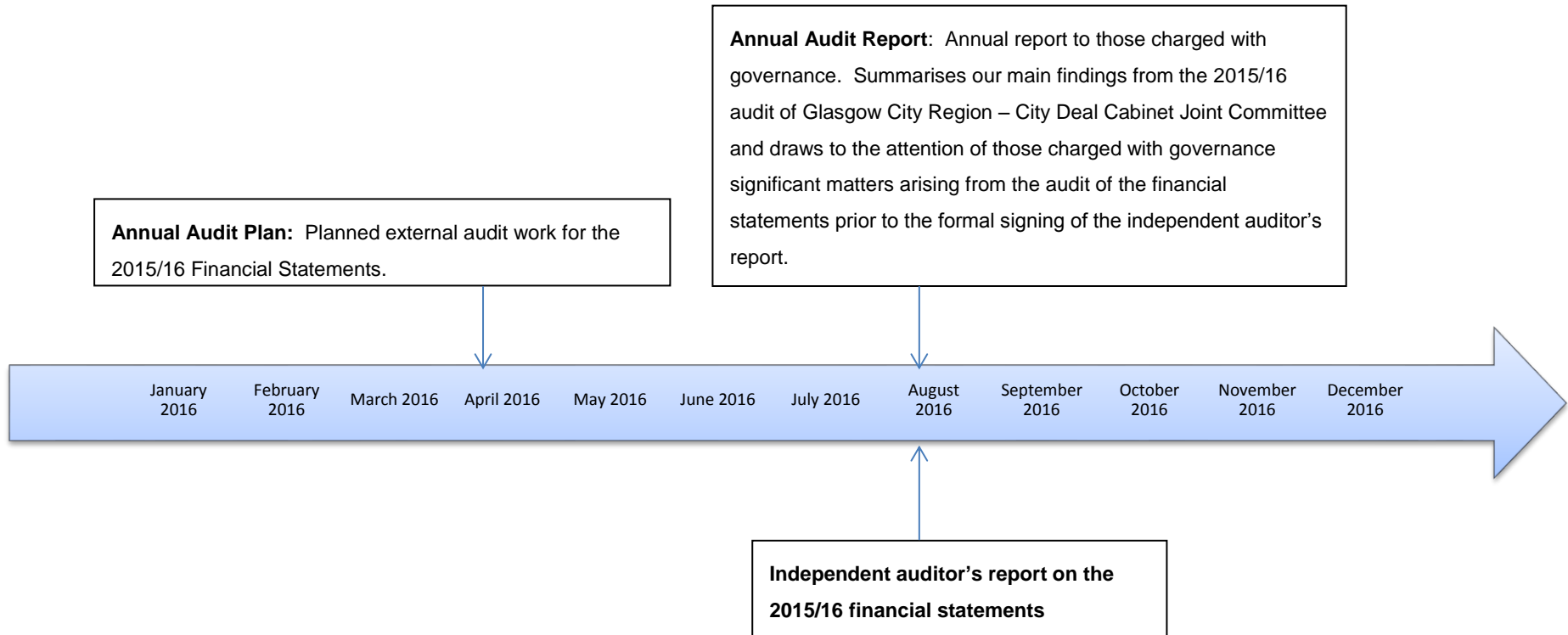
Appendix I: Significant audit risks

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
Risk of material misstatement		
<p>Management override of controls</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"> Evaluating any significant transactions that are outside the normal course of business. Testing of journal entries and review of accounting estimates for bias. 	<p>No significant transactions that were outside the normal course of business were identified during audit testing.</p> <p>No accounting estimates were made in preparing the financial statements.</p> <p>A sample of four journal entries was reviewed as part of year end journals testing. We found no evidence to suggest that management was overriding controls.</p> <p>No fraud concerns identified in respect of management override of controls.</p>
<p>Budget monitoring</p> <p>The Cabinet has not received any budget monitoring reports for the Programme Management Office (PMO). The PMO is responsible for administration of the Cabinet. There is a risk that the absence of</p>	<ul style="list-style-type: none"> Monitoring of minutes and review of year end budget position. 	<p>Programme status reports to the Cabinet now include a section covering the PMO budget. This provides a summary of the projected year end position and an explanation of any movements from the previously reported position. Officers have agreed to provide more detailed budget monitoring reports to future</p>

Audit Risk	Assurance procedure	Results and conclusions
comprehensive financial reporting may affect the ability of members to adequately scrutinise financial performance and make appropriate decisions.		Cabinet meetings.

Appendix II: Summary of local audit reports 2015/16



Appendix III: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	30	<p>City Deal programme budget monitoring</p> <p>Programme status update reports are presented at each meeting of the Cabinet. The report provides members with an update on the progress of the three City Deal investment streams and other activity carried out across the City Deal programmes. The reports also highlight any issues with individual projects. The reports do not provide detailed budget monitoring information for the programmes or individual projects. The absence of comprehensive financial reporting affects the ability of members to adequately scrutinise projects and make appropriate decisions.</p> <p>Recommendation</p> <p>All members of the Cabinet should be provided with sufficiently detailed information to allow them to scrutinise the financial performance of City Deal projects.</p>	<p>The current financial suite of reports approved by the Finance Officers Group and presented to the Chief Executives Group, within the PMO status report, will be included within the Cabinet updates.</p>	<p>Director of PMO August 2016</p>