

Glasgow City Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Glasgow City Council
March 2017

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit (including the new approach to Best Value). The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

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

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector Practice Note 10.</p> <p>Glasgow City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Clear schemes of delegation in place.</p> <p>Corporate fraud policy in place, and established Corporate Fraud Team in operation.</p> <p>Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure.</p> <p>Compliance with procurement regulations.</p>	<p>Analytical procedures on income / expenditure streams.</p> <p>Detailed testing of revenue / expenditure transactions focusing on the areas of greatest risk.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Consideration of the work of the council's Corporate Fraud Section.</p>

Audit Risk	Management assurance	Planned audit work
<p>Particular areas of concern include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by the council in delivering services.</p>	<p>Regular financial monitoring by management and scrutiny by members through cycle of committee reporting.</p> <p>Internal audit's plan includes a rolling review of core financial controls.</p>	
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, pensions liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Non current assets are professionally valued on a regular basis in accordance with a pre determined schedule.</p> <p>Pension liabilities for inclusion in financial statements are derived from valuation calculations prepared by actuaries appointed by Strathclyde Pension Fund.</p> <p>Controls are in place over provision of accurate data to valuers/ actuaries.</p> <p>Provisions reviewed by finance officers in consultation with the council's legal service.</p> <p>Established quality control and review arrangements for accounts preparation.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Completion of 'review of the work of an expert' for the professional actuary, and review of appropriate of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non current assets and of provisions.</p> <p>Sample check accruals and provisions in the 2016/17 annual accounts.</p>
<p>4 Group accounts consolidation of Integration Joint Board</p> <p>From 1 April 2016, the Glasgow Health and Social Care Integration Joint Board (IJB) has been operational and will be included in the council's accounts for the first time in 2016/17. The IJB is responsible for commissioning adult social care while the council is responsible for delivering services.</p> <p>There are risks that:</p> <ul style="list-style-type: none"> • transactions relating to the IJB are not correctly classified by the council • balances between the council and its IJB partners are not agreed in time for preparation of the financial statements • overspends occur if scrutiny of partnership budgets is not effective. Any overspends by the IJB will directly impact the council's budget. 	<p>The financial ledger coding structure identifies all IJB transactions.</p> <p>Regular monitoring of financial information.</p> <p>Due diligence completed on the budget setting process.</p> <p>All balances between IJB partners will be agreed prior to preparing the annual accounts.</p> <p>Agreement on how to account for overspends and underspends is outlined in the Integration Scheme.</p>	<p>Sample test income and expenditure relating to health and social care services provided to the IJB.</p> <p>Review the arrangements in place to confirm balances between the council and its IJB partners.</p> <p>Confirm whether any overspends or underspends relating to the council are accounted for in accordance with the integration scheme.</p>

Audit Risk	Management assurance	Planned audit work
Wider dimension risks		
<p>5 Financial sustainability</p> <p>The council's 2016-18 revenue budget identified a funding gap of £130m with planned savings of £83m in 2016/17 and £47m in 2017/18. This was subsequently revised to £53m in 2017/18 upon receipt of the Local Government Settlement.</p> <p>The Period 8 2016/17 budget monitoring report shows the council is on track to meet its 2016/17 savings target.</p> <p>Given the significant savings already made by the council in recent years, achieving the remaining planned savings without adversely affecting the level and quality of services still presents a significant challenge.</p>	<p>Established procedures for the monitoring of financial performance.</p> <p>Application of Financial Management and Control Code of Practice.</p>	<p>Undertake specific audit work on financial sustainability and financial management as part of our "audit dimensions" work. This will include consideration of the robustness of long term financial planning.</p> <p>Monitor the council's financial position via revenue budget monitoring reports presented to committee and meetings with officers.</p> <p>Ongoing review of transformation programme progress reports to committee, and comment in annual audit report.</p>
<p>6 Transformation Programme</p> <p>The successful delivery of the transformation programme is key for the council to achieve its savings targets.</p> <p>The size and complexity of the transformation programme presents a significant challenge to the council.</p> <p>There is a risk that the council does not have capacity to deliver its ambitious transformation programme and thus is unable to address the identified funding gap.</p>	<p>Established transformation monitoring arrangements support the reporting and delivery of the programme.</p> <p>Established track record in delivering change and savings programmes.</p>	<p>Develop our understanding of key processes in the council's transformation strategy and programme.</p> <p>Review the council's progress in delivering the transformation Programme.</p>
<p>7 ICT & Facilities Management Contract</p> <p>The council's ICT and Facilities Management contract with ACCESS ends on 31 March 2018.</p> <p>In December 2016, the council approved the development of an outline business case on the preferred option of utilising the framework CGI contract procured by City of Edinburgh Council. However following notification of potential legal action by council's current service provider, SERCO, in relation to the procurement process, the council paused dialogue with CGI.</p>	<p>The council has now re-entered discussions with CGI and is assessing proposals.</p> <p>The council are developing interim arrangements should these be found to be necessary.</p>	<p>Review of council's programme management arrangements.</p> <p>Review of the council's progress in delivering the new contract.</p>

Audit Risk	Management assurance	Planned audit work
<p>The successful procurement and delivery of new ICT and facilities management services will present significant challenges to the council and there is a risk that the council's preferred option for future delivery is not delivered on time.</p>		
<p>8 Local government elections The 2017 local government elections will result in changes to council membership. There is a risk of a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required.</p>	<p>Development of an appropriate induction pack for all Members of the new council.</p> <p>Development of appropriate training programmes for all Members of the new council.</p> <p>Development of an induction event for all members of the new council.</p>	<p>Review the council's arrangements for the induction and training of new members.</p> <p>Follow up work on our 2011 national report on the role of boards.</p>

Reporting arrangements

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

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

5. We will provide an independent auditor's report to Glasgow City Council and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Interim Report - governance and controls	June 2017	TBC*
Annual Audit Report including ISA 260 requirements	30 Sept 2017**	TBC*
Signed Independent Auditor's Report	30 Sept 2017**	TBC*

* Programme of committee meetings beyond Local Government elections in May still to be determined.

** These dates represent the certification deadline for the 2016/17 accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the accounts.

Audit fee

6. The agreed audit fee for the 2016/17 audit of Glasgow City Council is £621,670. In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

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

Responsibilities

Executive Committee, Finance and Audit Scrutiny Committee and Executive Director of Financial Services

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

9. Under the current committee structure, those charged with governance include the Executive Committee and the Finance and Audit Scrutiny Committee. The audit of the financial statements does not relieve management, or those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

13. We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the council and its group as at 31 March 2017 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) regulations 2014 and the Local Government in Scotland Act 2003.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Glasgow City Council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest budget for 2017.	£22.4m million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£15.7 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£ 0.1 million

15. We review and report on other information published with the financial statements including the management commentary, statement of responsibilities, annual governance report and the remuneration. Any issue identified will be reported to the appropriate committees charged with governance.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	June 2017*
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Acting Executive Director of Financial Services.	Early September 2017*
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2017**
Independent auditor's report signed	30 September 2017**
Latest date for signing of WGA return	30 September 2017

* Programme of committee meetings beyond Local Government elections in May still to be determined.

** These dates represent the certification deadline for the 2016/17 accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the accounts.

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the council's Internal Audit section.

Adequacy of Internal Audit

18. 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.

Areas of reliance

19. To support our audit opinion on the financial statements we plan to place formal reliance on aspects of the work of the following planned internal audit work:

- Accounts Payable
- ACCESS - SAP ECC Application Review
- Budgetary Monitoring.

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Statutory Performance Indicators
- Business Continuity
- Risk Management
- Members Expenses
- Transformation Governance
- Information Security
- Grants
- Data Matching

Audit dimensions

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

Exhibit 5

Audit dimensions



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

Financial sustainability

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

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

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

Governance and transparency

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

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

Value for money

26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the council can provide evidence that it is demonstrating value for money in the use of its resources
- the council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the council can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

27. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

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

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

29. The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 6

2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

30. The work planned in Glasgow City Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

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

32. Auditing and ethical standards require the engagement lead, David McConnell, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Glasgow City Council.

Quality control

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

34. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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

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