

# Glasgow City Region – City Deal Cabinet Joint Committee

2016/17 Annual  
Audit Report



 AUDIT SCOTLAND

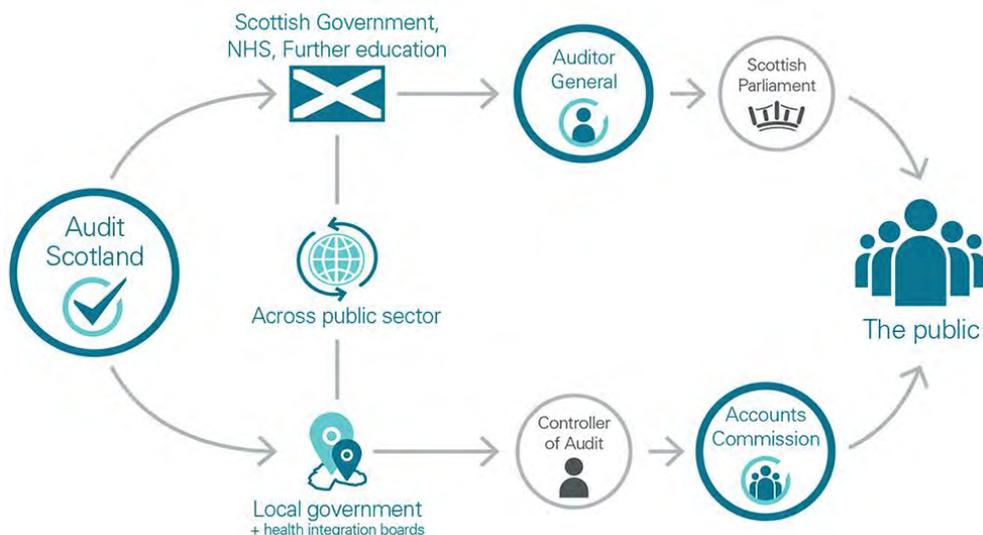
To members of Glasgow City Region- City Deal Cabinet Joint Committee and the Controller of Audit

August 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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# Contents

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|  |    |
|--|----|
| Key messages   | 4  |
| Introduction   | 5  |
| Part 1<br>Audit of 2016/17 annual accounts                       | 7  |
| Part 2<br>Financial management                                   | 10 |
| Part 3<br>Financial sustainability                               | 12 |
| Part 4<br>Governance and transparency                            | 13 |
| Part 5<br>Value for money  | 15 |
| Appendix 1<br>Significant audit risks identified during planning | 17 |
| Appendix 2<br>Summary of national performance reports 2016/17    | 18 |

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary and the annual governance statement.

## Financial management

- 2 Financial management is effective with a budget process focussed on the Cabinet's priorities and the Cabinet has a good track record of fulfilling its responsibilities within budget.
- 3 The internal controls relating to the Cabinet's financial systems and procedures are designed appropriately and operating effectively.

## Financial sustainability

- 4 The Cabinet is fully funded by contributions from member local authorities and therefore its financial position is currently sustainable.

## Governance and transparency

- 5 The Cabinet has appropriate governance arrangements in place that support the scrutiny of decisions made by the Cabinet. The Cabinet is open and transparent in the way it conducts its business and the public can attend meetings of the Cabinet.

## Value for money

- 6 The Cabinet demonstrates value for money in the use of its resources by delivering its objectives, including performance targets, within budget.
- 7 The Cabinet has made good progress with the implementation of its performance management arrangements.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet).
2. The scope of the audit was set out in our Annual Audit Plan presented to the April 2017 meeting of the Cabinet. This report comprises:
  - an audit of the annual report and accounts
  - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the Cabinet's governance arrangements
  - an audit of the Cabinet's 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.
4. The Cabinet is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within the Cabinet to manage its performance and use of resources such as money, staff and assets.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 10.** This report is addressed to both the Cabinet and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 11.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual accounts



### Main judgements

**An unqualified audit opinion was issued on the Cabinet's annual accounts.**

#### Unqualified audit opinions

**12.** The annual accounts for the year ended 31 March 2017 were approved by the Cabinet on 15 August 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary and annual governance statement.

**13.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

#### Submission of the Cabinet's annual accounts for audit

**14.** We received the unaudited annual accounts on 28 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

**15.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

#### Risk of material misstatement

**16.** [Appendix 1](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

#### Materiality

**17.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**18.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and were reported in our annual audit plan. Upon receipt of the unaudited accounts, materiality levels were revised,

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The Cabinet's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

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as summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. Following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

| Materiality level   | Amount |
|---|--------|
| <b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.   | £9,800 |
| <b>Performance materiality</b> – 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 90% of overall materiality. | £8,800 |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality, rounded up to the nearest £1,000.  | £1,000 |

Source: Cabinet unaudited financial statements 2016/17

## Material misstatements

20. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. There were no material misstatements identified in the Cabinet's annual accounts.

## Unadjusted errors

21. One error was identified that was not material to the accounts. The £36,383 accrual of the National Panel and Commission creditor is over stated by £2,944. Correcting this error would result in a corresponding increase in the amount due back to constituent authorities, with a nil impact on the overall creditor balance. As this error is immaterial no adjustment was required.

## Going concern

22. The financial statements of the Cabinet have been prepared on the going concern basis.

## Other findings

23. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

## **Pre audit inspection and objections to the accounts**

**24.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Cabinet complied with the regulations. No objections were received to the Cabinet's accounts.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget setting process focused on the Cabinet's priorities.**

**The Cabinet has a good track record of delivering services within its budget and has consistently contained its expenditure within annual budgets.**

**The Cabinet has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively**

### Financial performance in 2016/17

**25.** The Cabinet's total gross budget for 2016/17 was £1,051,536. The budget was aligned to the Cabinet's main expenditure streams.

**26.** The Cabinet has a good track record in delivering services within budget. As at 31 March 2017, there was an underspend against the original budget of £73,456. This was largely due to savings against employee costs.

**27.** The Cabinet does not have the power to hold reserves and in line with the prior year approach, member authorities' recharges will be adjusted to reflect this underspend in 2017/18.

### Budgetary monitoring and control

**28.** It was reported in our 2015/16 Annual Audit Report that the Cabinet did not receive budget monitoring reports on the Programme Management Office (PMO). The PMO is responsible for the administration of the Cabinet. There was a risk that the absence of comprehensive financial reporting could affect the ability of members to adequately scrutinise the financial performance of the PMO.

**29.** The Cabinet meets every eight weeks and programme status update reports are presented to each meeting. These reports give members an update on the progress of the three City Deal investment streams (infrastructure, innovation and skills and employment) and any other activity carried out across the City Deal programmes. The programme status reports now include a section on the financial performance of the PMO. This includes a projection of the year end position and an explanation of any movements from the previously reported position.

**30.** We are satisfied with the arrangements in place at the Cabinet for budgetary monitoring and control.

**Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.**

## Financial capacity within the Cabinet

**31.** The Section 95 officer of the Cabinet is the Acting Executive Director of Financial Services of Glasgow City Council. She is a member of the Council's corporate management team and has direct access to the Director and Cabinet members. We concluded that the Section 95 officer has appropriate status within the Cabinet.

**32.** The Cabinet does not directly employ staff and obtains its finance capacity through the secondment of officers from member authorities. This provides a flexible arrangement, allowing the Cabinet to align its financial capacity to meet changes in requirements. There have been no issues identified with regards to the financial capacity within the Cabinet.

**33.** With the recent local government elections, there have been a number of new members elected. It is important that they receive adequate training on how the Cabinet works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We reviewed the induction training and materials provided to new members and concluded that it was fit for purpose.

## Internal controls

**34.** As part of our audit we assess the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Cabinet has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**35.** 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, including payroll, accounts receivable and accounts payable. Our objective was to obtain evidence to support our opinion on the Cabinet's financial statements.

**36.** In our internal report to the Council, which was issued in July 2017, we concluded that the key controls were operating effectively. No significant control weaknesses were identified which could affect the Cabinet's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**37.** As part of their annual report for 2016/17, Internal Audit also concluded that reasonable assurance could be provided on the governance and internal control environment operating during the financial year.

## Prevention and detection of fraud

**38.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. The Cabinet's assurance framework sets out the Cabinet's policies for dealing with conflicts of interest, gifts and hospitality, and complaints and whistleblowing.

**39.** We are satisfied that the Cabinet has adequate arrangements in place for the prevention and detection of fraud, although it is acknowledged that no system can eliminate the risk of fraud entirely.

# Part 3

## Financial sustainability



### Main judgements

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

### Financial planning and funding position

**40.** The Glasgow City Region City Deal (the City Deal) is a 20 year deal with the Scottish and UK governments to deliver in relation to three areas: infrastructure, innovation and the labour market. Funding provided by the UK and Scottish Governments will be paid over a 20 year period, unlocked in five-year blocks, subject to the City Deal delivering agreed outputs and outcomes.

**41.** The Cabinet is responsible for the decision making and delivery of the City Deal and is funded through contributions from member authorities. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to strategies. The Cabinet approves the PMO budget on an annual basis. Good practice would suggest that this was supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Cabinet. However, we are satisfied that longer term financial plans and budgets to deliver the City Deal projects are in place, and the PMO provides the administrative support for the delivery of these projects.

**42.** The Cabinet approved its 2016/17 budget in December 2015. The budget was set at £802,462 before being revised to £917,036 in February 2017, which when including the KPMG recharges for economic modelling, brought the total budget to £1,051,536.

**43.** The Cabinet's 2017/18 budget of £1,101,627 was approved at a meeting of the Cabinet in April 2017. As the Cabinet is fully funded from contributions from its member authorities no funding gap or issues regarding the Cabinet's financial sustainability have been identified.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

# Part 4

## Governance and transparency



### Main Judgements

**The Cabinet has appropriate arrangements in place that support scrutiny of decisions made by the Cabinet and its standing committees.**

**The Cabinet is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Cabinet and its committees. Minutes of committee meetings and agenda papers are readily available on the Cabinet's website for public inspection.**

### Governance arrangements

44. During 2016/17 we carried out a review of the Cabinet's governance and accountability arrangements to inform the follow up of Audit Scotland's 2010 report on the Role of Boards. Following this review, management agreed to enhance existing arrangements by including a standing agenda item at Cabinet meetings for recording declarations of interest. Based on our work, we are satisfied with the governance and accountability arrangements the Cabinet has in place.

### Management commentary and annual governance statement

45. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires the Cabinet to prepare and publish, along with their financial statements, an annual governance statement and management commentary that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

46. Based on our knowledge of the Cabinet and work undertaken as part of the audit, including the longer term-financial sustainability as mentioned in paragraph 41 above, we concluded that the management commentary and annual governance statement are consistent with the financial statements.

### Internal audit

47. Internal audit provides senior management and elected members with independent assurance on the Cabinet's overall risk management, internal control and corporate governance processes.

48. The internal audit function is carried out by the internal audit section of Glasgow City Council. We carried out a review of the adequacy of the internal audit function as part of our work on the Glasgow City Council audit. We concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

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.

**49.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we relied on aspects of internal audit's work accounts payable and system access.

**50.** As part of our wider dimension work we considered internal audit reports on risk management, financial transactions and financial monitoring. There were no issues identified by internal audit that would have an impact on our audit work.

## Transparency

**51.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Cabinet is taking decisions and how it is using resources such as money, people and assets.

**52.** There is evidence from a number of sources which demonstrate the Cabinet's commitment to transparency. Members of the public can attend meetings of the full Cabinet, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Cabinet's website.

**53.** The registers of interests for each of the Cabinet's members are publically available on the website of which council that individual is a member of.

**54.** The Cabinet makes its annual accounts available on the Glasgow City Council website. These include a management commentary which provides details of performance against budget and risks and uncertainties facing the Cabinet.

**55.** Overall, we concluded that the Cabinet conducts its business in an open and transparent manner.

# Part 5

## Value for money



### Main judgements

**The Cabinet demonstrates value for money in the use of its resources by delivering its objectives, including performance targets, within budget.**

**We are satisfied with the performance management arrangements in place at the Cabinet. The Cabinet has made good progress with the implementation of its performance management arrangements.**

### Performance management

**56.** Over 20 years, the City Deal's £1.13 billion infrastructure fund will deliver around 20 new projects with a further six projects to deliver on innovation, skills and employment and adding value to the local economy. The PMO's performance is measured through the effectiveness of appraisal and monitoring of projects, and administrative and technical support.

**57.** Since its establishment in January 2015, the Cabinet has continued to develop its performance management arrangements. This includes programme status update reports and annual performance report, which is a requirement of the Cabinet's Assurance Framework.

**58.** The programme status update reports submitted to the Cabinet are the main vehicle for monitoring and reporting project progress. The reports allow scrutiny and analysis by the Cabinet and use the red/amber/green system for recording the status of a project across a number of key monitoring areas.

**59.** The most recent programme status report was presented to the June 2017 meeting of the Cabinet and noted that there were a small number of projects at amber status and one at red status, which relates to a skills and employment project for which a recovery plan is being implemented. These projects are being monitored by the Cabinet's Chief Executives Group.

**60.** A number of key City Deal projects have already been completed, including:

- the Cathkin Relief Road, the first major City Deal transport project, which opened in South Lanarkshire in February 2017
- The Tontine, a new £4 million centre for business incubation and development in Glasgow's Merchant City, which opened in May 2016
- the Imaging Centre of Excellence (ICE) officially opened at the Queen Elizabeth Hospital in Glasgow in March 2017.

**61.** The first Annual Performance Report was submitted to the Cabinet in December 2016, which covered the period 1 April 2015 to 31 October 2016. Future

**Value for money is concerned with using resources effectively and continually improving services.**

reports will be published after the annual audited accounts and will cover the financial year period.

**62.** The first Gateway Review of the progress of the City Deal is due to take place in 2019. It is expected that there will be two key indicators against which the success of the Glasgow City Region City Deal will be measured; progress against the programme plan and economic evaluation. The performance report indicates that the City Deal remains on schedule to achieve the first Gateway in 2019. The report also highlighted other areas of performance:

- the Glasgow City region structure is in place and operational
- all major governance arrangements are in place including Assurance Framework, Programme & Economic Programme Business Case, Risk Management Strategy, and Communication & Stakeholder Engagement Strategy
- a regional Communication and Marketing Group is in place
- the overall investment programme is on schedule.

**63.** We are satisfied with the performance management arrangements in place at the Cabinet.

**64.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. These are outlined in [Appendix 2](#).

# Appendix 1

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning 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>Risks of material misstatement in the financial statements</b>  |  |  |
| <p><b>1 Risk of management override of controls</b></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>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>Journal entries were reviewed as part of the substantive testing of the financial statements. No evidence to suggest management was overriding controls was identified.</p> <p>No accounting estimates were made in preparing the financial statements.</p> <p>A sample of accruals was tested. No issues were identified.</p> <p>No significant transactions that were outside the normal course of business were identified during audit testing.</p> <p>No fraud concerns were identified in respect of management override of controls.</p> |
| <p><b>2 Risk of fraud over expenditure</b></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>The risk of fraud over expenditure applies due to the material value of non-staff cost expenditure.</p>   | <p>Analytical procedures on expenditure schemes.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>   | <p>Analytical procedures were carried out on expenditure items.</p> <p>A sample of expenditure transactions was tested.</p> <p>No evidence to suggest fraud over expenditure was identified.</p>   |

# Appendix 2

## Summary of national performance reports 2016/17



|      |   |  |  |
|------|---|--|--|
| Apr  |   |  |  |
| May  |  Common Agricultural Policy Futures programme: an update           |  |  |
| Jun  |  South Ayrshire Council: Best Value audit report                   |  The National Fraud Initiative in Scotland                  |  |
| Jul  |  Audit of higher education in Scottish universities                |  Supporting Scotland's economic growth                      |  |
| Aug  |  Maintaining Scotland's roads: a follow-up report                 |  Superfast broadband for Scotland: a progress update       |  Scotland's colleges 2016                  |
| Sept |  Social work in Scotland   |  Scotland's new financial powers                          |  |
| Oct  |  Angus Council: Best Value audit report                          |  NHS in Scotland 2016                                     |  |
| Nov  |  How councils work – Roles and working relationships in councils |  Local government in Scotland: Financial overview 2015/16 |  |
| Dec  |  Falkirk Council: Best Value audit report                        |  East Dunbartonshire Council: Best Value audit report     |  |
| Jan  |   |  |  |
| Feb  |  Scotland's NHS workforce  |  |  |
| Mar  |  Local government in Scotland: Performance and challenges 2017   |  i6: a review   |  Managing new financial powers: an update |

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