



Glasgow City Council

Annual audit report to
Members and the
Controller of Audit

September 2015

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)

The Accounts Commission has appointed Gillian Woolman as the external auditor of 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.

This report will be published on our website after it has been considered by the council. 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

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified audit report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Strong financial management with robust budget monitoring• Significant budget pressures identified over the years 2016 to 2018 with potential savings required of £103m.• New Transformation Strategy and Programme in place aimed at further service reform and new ways of partnership working and service delivery
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Sound governance arrangements in place• Systems of internal control operated effectively• An effective internal audit function.



Best Value

- A refreshed Strategic Plan to reflect current priorities and pressures
- Performance management is effective and measures progress against key themes
- Benchmarking is used to monitor and improve performance



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 continued strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 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 **appendices II and 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.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> 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 or its group's, ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> 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.
Group accounts	<ul style="list-style-type: none"> Glasgow City Council has accounted for the financial results of nine subsidiaries and three associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £99m and this is related to the net pension liability of the group.
Whole of government accounts	<ul style="list-style-type: none"> The consolidation pack will be audited and the certified return submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 19 June 2015, 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.

Overview of the scope of the audit of the financial statements

10. 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 11 March 2015.
11. 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 2014/15 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.
12. 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.

13. 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

14. 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).
15. 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.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Glasgow City Council and its group we set our planning materiality for 2014/15 at £24.1m for the council and £26.4m for the group (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £12.1m for the council

and £19.8m for the group, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

17. 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

18. A number of presentational adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements in respect of a number of instances.
19. A number of other misstatements were identified which were not processed through the financial statements by management and have been classified as unadjusted misstatements. The impact of these is:
- a net charge of £1.4m to the 2014/15 Comprehensive Income and Expenditure Statement relating to the depreciation chargeable on assets which should have been transferred from assets under construction to operational. This adjustment does not alter the closing 2014/15 General Fund reserve balance, as any impact on the Comprehensive Income and Expenditure Statement is adjusted for through the Movement in Reserves Statement.

20. We are also aware of the following unadjusted misstatements highlighted by the external auditors of the 2014/15 financial statements of the council's subsidiaries and associates included in the group accounts:
- £0.219m in holiday pay liability not provided for
 - £0.215m of discounts due from subcontractors which were not recognised
 - £0.629m of claims for sums due for construction work wrongly posted to Cost of Sales instead of Turnover
 - £0.104m being an understatement of debtors relating to rent and service charge income
 - £0.134m being an increase in the costs of investment property
21. The net impact of these unadjusted misstatements is a net charge of £34,000 to the Group Comprehensive Income and Expenditure Statement.
22. While we request that all errors be corrected, management considered that these 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.

Significant findings from the audit

Issue	Resolution
<p>Phase 5 Education Estate Strategy : 4Rs Programme</p> <p>Phase 5 of the Education Estate Strategy contract mainly involves the major refurbishment of the council's primary and nursery schools. The contract began in April 2013 and is valued at £250m over five years.</p> <p>The value of capital spend on the contract to 31 March 2015 was £88m. The total of this spend has been treated as value enhancing and has been added to the value of land and buildings in the 2014/15 balance sheet. The council is not intending to revalue its schools estate until 2016/17, the next due date on the five year valuation programme. The council believe that the Phase 5 contract will increase the value of the assets held.</p>	<p>We acknowledge that the objective of the Phase 5 capital programme is to significantly improve the condition of primary and nursery schools. When these assets were last revalued in 2011/12, the assets were in a poor state of condition and this was reflected in the valuation at that time. Given the nature of the major refurbishments being carried out we accept that the expenditure is likely to increase the value of the assets although the total value added is not yet known.</p> <p>Whilst we have had sight of 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 2015, we have sought specific assurance from the Executive Director of Financial Services that the expenditure to date on Phase 5 of the Education Estate Strategy is of a capital and not a</p>

Issue	Resolution
	<p>revenue nature and that the likelihood of the current value being materially different from that included in the balance sheet at 31 March 2015 is low.</p>
<p>Hydro car park</p> <p>The Hydro car park has been included in the 2014/15 group balance sheet at the total construction cost of £16.5m. We understand that the basis for the valuation of car parks is the profit method of valuation and trading potential. As such the value of the Hydro Car Park in the 2014/15 financial statements may be different from that prepared under the profit method of valuation.</p>	<p>The council will arrange for the revaluation of the Hydro car park during 2015/16.</p> <p>Whilst we are assured that due to the level of usage of this car park the profit method of valuation will result in a positive value, we have sought specific assurance from the Executive Director of Financial Services that the likelihood of the current value of the Hydro car park being materially different from that included in the group balance sheet at 31 March 2015 is low.</p>
<p>European Funding</p> <p>The council is aware that one of its subsidiaries has not fully complied with certain controls required under European Funding Regulations and that there is a possibility that previous awards of grant may have to be repaid.</p> <p>The council's Internal Auditors have carried out a review of the council's processes for checking and approving grant claims for European Structural Funds. The audit found that the control environment was not adequate to ensure that accurate claims were submitted and identified areas where the grant conditions had not been complied with. Specific disclosure has been made in the Annual Governance Statement included in the 2014/15 financial statements.</p>	<p>The council's Internal Auditors are to carry out further audit and assurance to improve controls within the council. The council has suspended the granting of European Funds to its subsidiary where there had been non compliance with the conditions of grant.</p> <p>The council will recognise the possible need to repay European grant funding as a contingent liability in the 2014/15 financial statements.</p> <p>Refer action point 1</p>

Issue	Resolution
<p>Cathkin Landfill Site Restoration</p> <p>Due to adverse weather and water contamination issues there have been delays in completing the restoration works at Cathkin Landfill Site. Works will not be completed by 30 September 2015, the deadline of the planning enforcement order placed on the council by South Lanarkshire Council. The consequences of this to the council are currently unknown but we are advised could result in :</p> <ul style="list-style-type: none"> • Criminal Prosecution - If South Lanarkshire decided to go down this route, the procurator fiscal would determine whether to prosecute and the choice of summary or solemn procedure. On summary conviction a fine not exceeding £20k may be imposed, but an unlimited fine may be imposed following conviction on indictment. • Fixed Penalty Notice – this is a one off fixed penalty notice of £2,000 • Direct Action by the Planning Authority - i.e. if the steps detailed in the enforcement notice have not been taken within the specified period, the planning authority may take those steps 	<p>Work on the restoration is currently underway and progress will be closely monitored by management.</p> <p>South Lanarkshire Council has written to the council to confirm that the date for the completion of the restoration works can be extended to 30 November 2016.</p>
<p>Remuneration Report</p> <p>The remuneration report included in the council's 2014/15 group financial statements discloses £178,316 in respect of a payment made</p>	<p>We have been assured by the council as the major shareholder that they were and will continue to be fully engaged in the governance</p>

Issue	Resolution
<p>for compensation for loss of office to the former Chief Executive of SEC Ltd. The SEC Ltd accounts record that the Chief Executive resigned. The payment has been audited by the external auditors of the SEC Ltd and they are assured as to the appropriateness of the sums paid.</p>	<p>arrangements covering SEC Ltd, including the remuneration policy for directors.</p>
<p>Contingent Liabilities</p> <p>We raise the following point in connection with the contingent liabilities note (Note 31) included in the 2014/15 financial statements:</p> <p>Equal Pay</p> <p>There have been 9,250 claims received by the council in respect of the job evaluation scheme introduced as part of the council's Workforce Pay and Benefits Review. These claims were considered at an Employment Tribunal in December 2013, when the council's pay and grading structure was found not to be discriminatory. This decision was appealed by claimants and these appeals were heard by the Employment Appeal Tribunal in December 2014 and May 2015. The outcome of this appeal is as yet unknown.</p> <p>The council does not believe there is a need to make provision for these claims, nor would they be in a position to quantify the potential value involved. Reference has been made to outstanding equal pay claims in the Contingent Liabilities note of the 2014/15 of the financial statements.</p>	<p>After discussions with officers we have concluded that the disclosure of this item as an unquantified contingent liability remains appropriate. We have also sought appropriate written management representation.</p>

Issue	Resolution
<p>Completion of audit of group accounts</p> <p>International Standard on Auditing 600 “Using the work of another auditor” requires us to consider a number of matters relating to the audit of component entities included in the group financial statements. As part of this process we obtain audited accounts for all subsidiaries and associates. We have yet to receive audited accounts for the following material entities, City Property Investments (due 24 September 2015).</p>	<p>We await audited financial statements for all material group entities to conclude the audit of the group financial statements.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

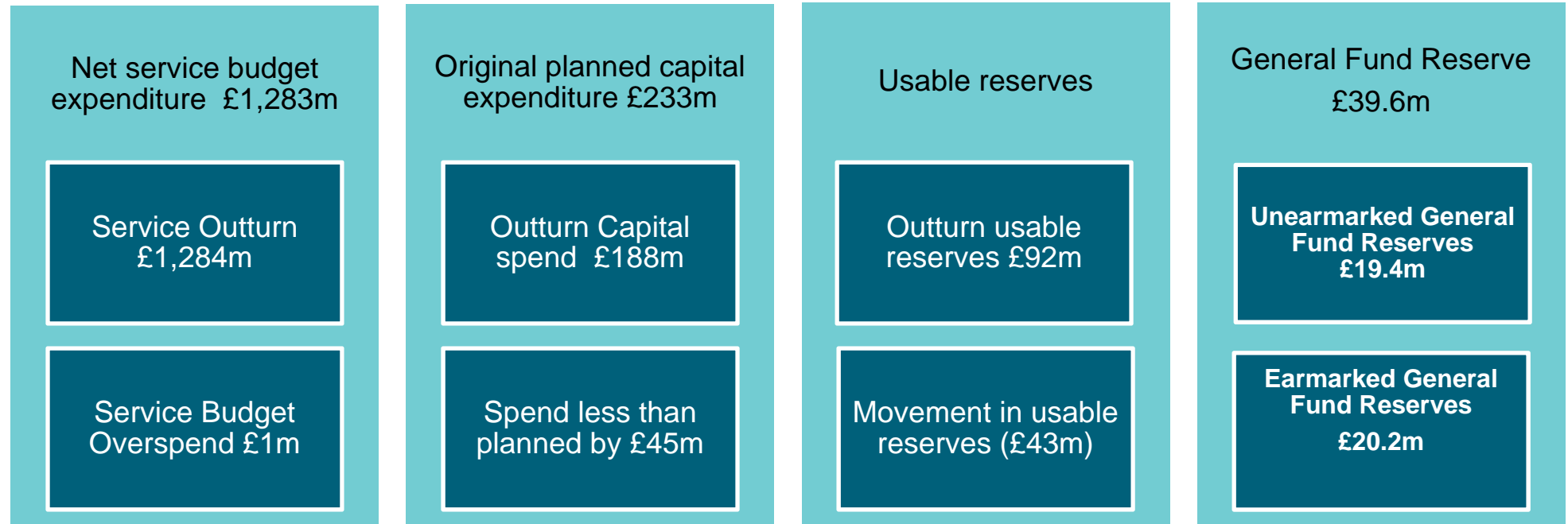
25. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
26. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. The 2015/16 Code requires, however, surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
27. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability

of complete and accurate management information on highway assets.

Health and Social Care Integration

28. From 1 April 2016 Integrated Joint Boards (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 and the Accounts Commission will appoint auditors to audit the financial statements. The Executive Director of Financial Services will ensure appropriate financial assurance measures are completed and reported in line with Scottish Government guidance prior to 31 March 2016.

Financial management and sustainability



Financial management

29. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
30. 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

31. The 2014/15 budget was approved by the council in February 2014. For budget monitoring purposes, budgets are updated each period to reflect new funding, operational changes and additional expenditure approvals. Pressures on service budgets are monitored and corrective action taken to meet budget targets where possible.
32. The council reported an overspend of £1.0m against service budgets. The largest variances against budget were Social Work Services (£3.7m overspend) and Financial Services (£2.3m underspend). All other services reported a variance against budget of £0.2m or less.
33. The overspend within Social Work Services relates to pressures in Homelessness Services and the costs of Looked after Children. Personalisation is also showing an overspend as a result of new demand for services, reduced occupancy levels within the

reconfigured Learning Disability Day Services and the number of service users still going through the personalisation process.

34. The council reported an underspend of £16.3m against financing costs associated with the council's debt. This was due to the application of £11.4m capital receipts from asset sales, lower than expected revenue consequences of capital investment and the ongoing impact of lower interest rates.
35. The final outturn position of the general services budget reflects a number of changes to the original 2014/15 budget. Approved changes to the original expenditure budget were £65.9m and approved changes to the original income budget were £66.4m.

Financial management arrangements

36. 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.
37. 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.
38. Financial monitoring reports are submitted to the Finance and Audit Scrutiny Committee and Executive Committee. Revenue and capital monitoring reports are submitted on a monthly basis and more detailed capital monitoring reports on a quarterly basis. Reports are comprehensive and well laid out.
39. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

40. Effective financial management arrangements are vital if the council is to continue to deliver its strategic objectives while at the same time meeting challenging savings targets. We have concluded that the council's financial management arrangements are satisfactory.

Financial sustainability

41. 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.

42. 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.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

43. The overall level of usable reserves held by the council decreased by £42.8m compared to the previous year and totalled £92.1m, Exhibit 1. The General Fund Reserve balance of £39.6m represents the accumulated surplus of the council and shows an increase of £6.8m from the previous year. There was a planned build up of the Cultural and Recreational Fund in prior years for application in 2014/15, in connection with the Commonwealth Games.
44. A cumulative total of £20.2m has been earmarked to meet expenditure in future years, leaving an uncommitted balance of £19.4m (2013/14 £18.3m) or 1.3% of 2015/16 net budgeted expenditure. This position is not in line with the council's policy which is to restore balances to 2% of net budgeted expenditure over the medium term. The council's aim is to restore uncommitted reserves levels to 2% or above over the medium term and the

2015/16 revenue budget includes a £3m contribution to the general fund.

Exhibit 1: Usable reserves

Description	31 March 2014	31 March 2015
	£ million	£ million
General Fund	32.8	39.6
Capital Reserve Fund	5.6	5.1
Capital grants unapplied	29.9	12.2
Repair & Renewal Fund	15.2	15.4
Culture & Recreational Fund	36.3	6.0
Insurance fund	15.1	13.8
Total usable reserves	134.9	92.1

Source: Glasgow City Council 2014/15 financial statements

45. The significant decrease in level of Capital Grants Unapplied reflects the spending of funding received during 2013/14 for the Future Cities and Fastlink projects and spent in 2014/15.
46. There were significant movements in the balances held within the Culture and Recreational Fund during the year with a transfer of £26 m from the fund to finance the council's revenue contributions to the Commonwealth Games.

Accounting deficit

47. The council reported an accounting deficit of £55.6m on the provision of services in 2014/15 (£84.2m deficit in 2013/14). Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £6.8m, which was in line with budgetary assumptions.

Group accounts

48. 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.
49. 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 reduce total reserves and net assets by £99m due mainly to inclusion in the group accounts of the net pension liabilities of some of the council's subsidiaries.

Financial planning

50. The 2015/16 budget was set by the council in February 2015 at £1,510.1m and assumed savings of £28.9m. To meet this budget the council's Service Reform proposals require to be delivered across the council.

Council specific transformational programme/efficiency strategy

51. The council's service reform programme has been an integral part of how the council has secured the efficiencies necessary to meet past funding gaps and the council has a good track record of delivering targets. Significant reforms have already been made in areas such as office accommodation and working practices and reductions to the workforce from large scale early retirement schemes. The Council Strategic Plan Refresh 2015-17, approved by the Executive Committee in June 2015, sets out refocused priorities and the development of a new Transformation Strategy and Programme aimed at addressing future financial challenges and increasing demands on services.
52. The aim of the new Transformation Strategy and Programme is to accelerate the pace and scale of reform of council services and will initially focus on the following three main themes:
- "Ways of Working in the Council Family Group" which will consider operational, process and workforce improvements.
 - "A Thematic Efficiency Review" which will consider the potential for further efficiencies and reform across the council's key themes.
 - "Place Based Solutions" which will involve the council working with partners to reduce costs and improve outcomes in service areas.

53. The council anticipates significant reduction in resources across all services and its Arms Length External Organisations (ALEOs) and is estimating the need to reduce council expenditure by 7%. This equates to a total of £103m for the years 2016/17 and 2017/18. Given the significant level of savings already made through past service reform, the capacity for securing even further savings without adversely impacting on services may be limited. The council is well aware of the significant challenges that lie ahead and has plans in place for the support and resourcing of the new transformation programme.

Refer action point 2

Capital programme 2014/15

54. The council spent £188m on the 2014/15 capital programme, £45m 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, the Future City project and investment in the city's roads.
55. The capital programme was funded from:
- £99.3m capital grants and contributions
 - £85.3m borrowing
 - £2.9m revenue contributions
 - £0.4m finance lease

Total capital income for the year amounted to £87.9m with receipts from asset sales totalling £11.4m.

56. Progress against the council's capital programme is closely monitored and reported to the Executive Committee and Finance and Audit Scrutiny Committee. During the year the council has encountered particular difficulties with two of the projects included in the Tomorrow's Residential and Day Care Programme for Older People. Work on the Leithland Care Home was suspended in March 2014 because of flooding on the part of the site where the care home was to be constructed and the construction works have relocated to another part of the site.
57. The Commonwealth Care Home at Springfield Road was completed as part of the accommodation for athletes during the 2014 Commonwealth Games and was due to be internally fitted out as a care home. However there are currently a significant number of issues outstanding which require to be addressed, including defects in brickwork and flooring, the scope and cost of retro fit works and addressing concerns raised by the Care Inspectorate and Building Control that will impact on registration.
58. The Tomorrow's Residential and Day Care programme was originally due to be complete by now and is taking longer to complete than expected due to the complexity of the buildings and challenging ground conditions. Additional capital funding of £13.8m has been approved by members to complete the programme.
59. The council has taken the positive step of completing a lessons learned exercise on the Social Work Services capital programme in order to identify opportunities for improving the management of individual projects and the overall programme.
60. 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 the partner local authorities. As part of the City Deal, the council has identified an investment programme of £368m. It is estimated that the council will receive a £333m Government grant to fund these investments with the balance to be funded by the council.
61. Total investment in the Buchanan Quarter Tax Increment Finance (TIF) scheme to date is £9.1m, with the total TIF debt, £13.5m, to be repaid over the remaining scheme period (23 years).
62. 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. Land Securities are exploring options for the Buchanan redevelopment, which are not affected by EGIP, and in the short term are working to identify opportunities to progress with some unaffected elements of their Buchanan works.
63. In line with the approved TIF business case, capital expenditure has been incurred in advance of the collection of additional non domestic rates. It is important that the council continues to engage with their Land Securities partners in order to assess the impact of

the reconfigured Buchanan Quarter programme on the objectives of the TIF scheme and minimise any delay in the receipt of NDR income.

Asset Management

64. Progress has continued in developing arrangements for managing the council's asset portfolio with a refreshed Corporate Asset Management Plan (CAMP), covering the period 2014 to 2017, being approved by members in December 2014. Progress to date has focused on the introduction of governance frameworks which are essential in providing a clear strategic direction to asset planning which will successfully support the council's key objectives and strategic plan.
65. Having now developed a CAMP and established the governance arrangements to take this forward, it is essential that progress continues at the individual asset class level and that asset management plans are developed which are based on accurate data on asset use and condition, include performance measures and which can inform future investment decisions to meet service needs. Making the best use of the council's asset portfolio will play a critical part in the successful delivery of the council's new Transformation Strategy.

Workforce Management

66. Effective workforce management is essential to ensure that the council maximises the effectiveness of its 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 approved its Corporate HR Strategy in October 2013 including an action plan for those improvement activities required to support the council's strategic plan up until 2017. Progress against the action plan is regularly monitored and reported to the council's senior management team. A staff survey was conducted in Spring 2015 and the results published in Autumn 2015.

67. A refreshed employee engagement strategy for 2015-17 was introduced in May 2015. This aims to further enhance the council's arrangements for ensuring employees are well informed and understand the contribution they make to achieving their services' and in turn, the council's strategic objectives.

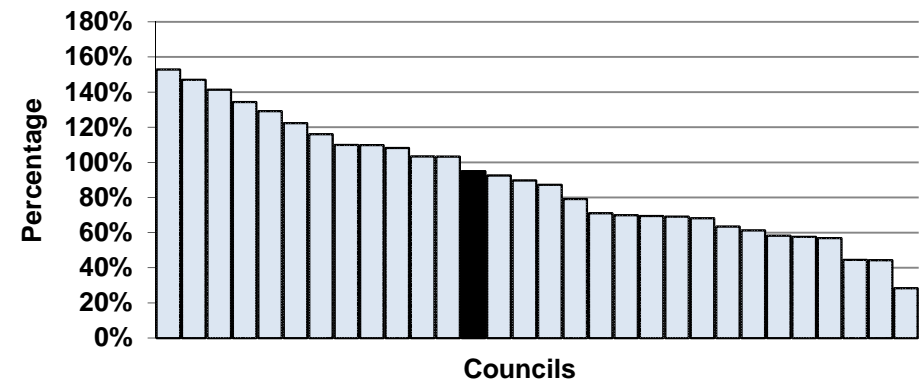
Treasury Management

68. At 31 March 2015 long term borrowing stood at £1,380.0m, a decrease of £72.8m on the 2014 borrowing level of £1,452.8m. During the same period, short term borrowing increased from £259.8m to £312.5m. This is in line with the council's 2014/15 Treasury Management Strategy to minimise debt interest costs over the medium term and to achieve a more even spread in the debt maturity profile. Interest payable and similar charges fell by £0.7m in 2014/15 to £107.7m.
69. Financing costs associated with the council's debt portfolio were underspent by £16.3m for 2014/15. This reflects the application of capital receipts from asset sales (£11.4m), lower than anticipated revenue consequences of capital investment and the ongoing impact of lower interest rates.

- 70. The council's need to borrow for capital purposes, or its "capital financing requirement" at 31 March 2015 was £1,572 m (31 March 2014: £1,591m), while net external borrowing stood £44m lower at £1,528m (31 March 2014: £1,579m). This reflects the council's treasury management strategy to make use of internal funds held for longer-term purposes and to minimise exposure to investment risk.
- 71. The current economic climate means that interest rates on investments have improved but remain low, resulting in only £7.0m of investment income being received this year from £402.6m of investments, compared to £7.7million last year from £426.9m of investments. As the council has a significant proportion of its historic debt at fixed rates the average cost of borrowing over the year was 4.7% compared with 4.8% in 2013/14.

Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 9 shows long term borrowing as at 31 March 2015 as a percentage of net revenue stream for the year for all mainland councils in Scotland. The council's [position is highlighted.

Exhibit 9: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

Pension liability

- 72. The net assets on the council's balance sheet have decreased from £1,322m in 2013/14 to £1,086m in 2014/15, a reduction of £236m or 18%. The principal reason for this decrease is the £234m increase in the net pension liability from £1,302m to £1,536m. A similar position is also reflected in the balance sheet for the group, with the group pension liability increasing from £1,451m in 2013/14 to £1,772m in 2014/15.
- 73. 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 reduced from 1.5% at March 2014 to 0.8% at March 2015. This has contributed to the increased net pension liability at 31 March 2015.

Conclusion on financial sustainability

74. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible financial plans in place. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.

Outlook

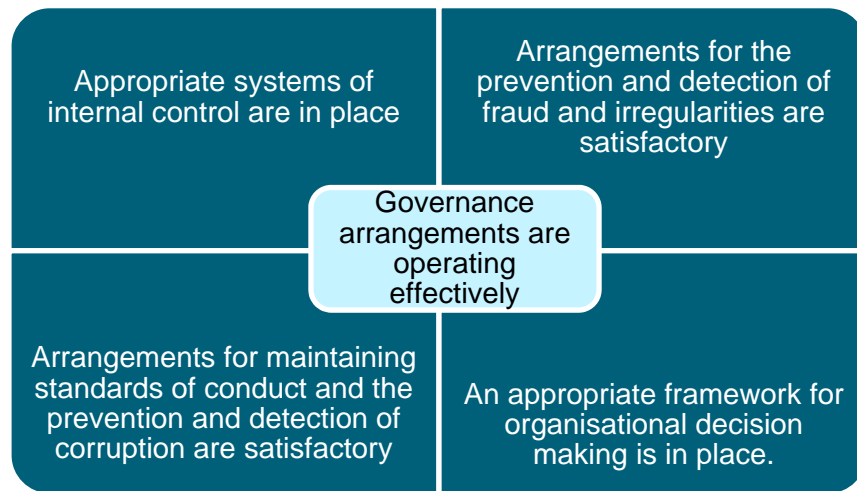
75. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.

76. In common with many other councils, Glasgow City Council is now 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.

77. In February 2015, the council approved its revenue budget for 2015/16 which required savings of £28.9m. The net service expenditure budget set for 2015/16 is £1,510m and represents an increase of 5% on that set for 2014/15 (£1,441m).
78. The latest reported position for the 2015/16 revenue budget is a projected overspend of £0.7m, relating to Education Services and Social Work Services.
79. The approved gross expenditure for the Investment Programme is currently £673m. The City Deal will form a significant element of the council's programme from 2015/16 onwards.
80. For the council to meet its budget proposals it is essential that Service Reform proposals are delivered and associated efficiency savings achieved. The financial risks associated with the delivery of the council's financial plans will be underpinned by General Fund reserves.
81. The council has forecast an acute financial challenge in 2016-2018 which would require it to reduce expenditure by 7%. This equates to £56m in 2016/17 and a further £47m in 2017/18, £103m in total. The council's Transformation Strategy sets out how the council plans to make efficiencies.

Governance and transparency



82. 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.

Corporate governance

83. The corporate governance framework within Glasgow City Council is centred on the council which is supported by the Executive Committee and a further two scrutiny committees namely the

Operational Delivery and Finance and Audit Scrutiny Committees. In addition five policy development committees regularly meet to deal with specific issues.

84. Based on our observations and audit work our overall conclusion is that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Local code of corporate governance

85. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Corporate Governance in Local Government: A Keystone for Community Governance. The council's local code of governance is supported by a governance framework made up from a range of policies and approved procedures. These fall into three groupings: key corporate governance policies, financial and risk management policies and social, cultural and economic policies. A comprehensive list of all policies is available on the council's website, along with readily accessible links to each document.

Internal control

86. As part of our audit 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 council's financial statements.

87. We reported our findings to the Finance and Audit Scrutiny Committee in August 2015. 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

88. 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.
89. To avoid duplication, we place reliance on internal audit work where possible. We placed reliance on the work of internal audit on a number of main accounting systems, namely financial ledger, accounts payable, non domestic rates and council tax billing and collection and housing benefits.

ICT audit

90. ICT is a key aspect of the council's internal control environment. It underpins all systems used by the council as well as supporting strategic planning and performance management. We have tested the operation of the ICT systems based controls within the main financial systems and we are not aware of any specific issues that require to be brought to the attention of members.
91. Going forward the ICT strategy will play an important role in supporting any future service reforms under the council's Transformation Strategy. It is essential that ICT services can meet the demands and needs of council services as well as new ways of working such as health and social care integration.

Arrangements for the prevention and detection of fraud

92. Overall the council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.
93. As reported in the Head of Audit and Inspection's annual governance statement to the Executive Committee on 28 May 2015 it was alleged that a council officer had misappropriated funds from non domestic rate income receipts. The council's internal audit section is currently investigating the circumstances surrounding the misappropriation of council income and considering the need for additional checks. It is estimated that the total amount involved could be in the region of £20,000. We will continue to liaise with

Internal Audit on this issue and consider as part of our risk assessment in planning for the 2015/16 audit.

National Fraud Initiative in Scotland

94. The National Fraud Initiative (NFI) in Scotland brings together data from councils, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
95. We concluded that the council's overall arrangements for NFI are adequate.
96. The NFI matching process has identified 168 cases where a resident has died but the council may not have been notified and continues to make payments to the private residential care home. This is an area of potential risk to the council and there has been a recent case in another local authority where substantial payments had been made to a care home after the death of a resident. We are advised that the council has recently followed up the top priority cases and there were no issues identified.

Refer action point 3

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

97. The arrangements for the prevention and detection of corruption in Glasgow City Council Glasgow City Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland /Statutory objections to the accounts

98. 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 results of the review of the Integrated Grant Fund Scheme approved by the Executive Committee in December 2014. The correspondence queried why the application process was restricted to existing grant recipients.
99. Overall we found that a sound approach had been taken to the review process. However whilst we have been advised that the project board did consider the option of opening up the grant scheme to new applicants, we were unable to obtain formal written records to confirm the discussions held and the basis of the decisions taken. As included in our 2014/15 Review of Controls Report, management have provided assurance that the project board's deliberations were articulated in the report to the Executive Committee in December 2014.

Transparency

100. 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.

It is appropriate that some parts of the committee meetings (eg Social Work complaints) are held in private due to the confidential and sensitive nature of their business.

Freedom of Information requests

101. The total number of freedom of information (FOI) requests received by the council has been steadily increasing with 771 received in 2014/15 (655 in 2013/14). The council has a target of responding to FOI requests within 20 working days of receipt. Performance over

the last 4 years has been good with the lowest level of performance being reported by the council as 98.4 %.

Integration of health and social care

102. 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.

103. The draft Integration Scheme for the Glasgow Partnership was submitted to Scottish Ministers by the deadline of 31 March 2015. Feedback was received on this draft on 29 April and as reported to the shadow Integrated Joint Board, the purpose of much of this feedback was to ensure stronger evidencing of the nature and intent of joint working and integration within Glasgow. This feedback technically represented a formal rejection by the Cabinet Secretary of the Glasgow City Submission and a revised Integration Scheme is currently being drafted by the Council and Health Board. Once the Scheme has been approved the Integrated Joint Board will be established by Order of the Scottish Ministers.

104. The Integrated Joint Board is required to have a Strategic Plan in place by 1 April 2016. Upon approval of the Plan, the council and health board functions, as outlined in the Integration Scheme, will be delegated to the Integrated Joint Board. The Strategic Plan for Glasgow Health and Social Care Partnership is being developed by the Strategic Planning Group which includes representatives from health and social care professionals, service user and carer

representatives and representatives of the third and independent sectors.

- 105.** The timetable submitted to the meeting of the Shadow Integrated Joint Board on 22 June 2015 highlights the following key dates:
- Integration Joint Board established by Ministerial Order in September 2015.
 - Draft Strategic Plan presented to the Integrated Joint Board for approval in October 2015 followed by a period of consultation up to December 2015.
 - Final draft plan presented to the Integrated Joint Board for approval in March 2016.
- 106.** A number of key milestones have already been achieved including senior management appointments and the mapping of existing performance measures to the statutory national health and well being outcomes. Finalising the complex organisational issues will be demanding and there is a risk that the formal arrangements may not be in place by the statutory deadline of 1 April 2016.

Refer action point 4

Welfare Reform

- 107.** The council is committed to minimising the impact that the changes to the UK welfare system could have on the city and the quality of life for individuals and families. It has developed a planned response with partners through the work of the Corporate Welfare Reform Group.
- 108.** Universal Credit (UC) replaces 6 existing benefits, including Housing Benefit, with a single monthly payment and is intended to help people prepare for work, move into work or earn more. It is available to people who are on a low income or out of work.
- 109.** Since April 2013 the Department for Work and Pensions (DWP) has been implementing UC on a “test and learn” basis and has been managing the roll out on a largely geographical basis. In September 2014, DWP announced that Universal Credit will be rolled out across the country to all Jobcentres and Local Authorities from February 2015.
- 110.** Glasgow City Council is included in Phase 2 and the UC Live Service started from 8 June 2015 in all 14 DWP Jobcentres across Glasgow. Live Service Expansion includes the transition of single UC claimants with no children, who would otherwise have claimed Jobseekers Allowance, with or without housing costs, but excluding mortgage costs.
- 111.** It is anticipated that from April 2016 the UC expansion will roll-out to other benefit types, including Housing Benefit, for all categories of

claimants. DWP is still to publish a plan for this further implementation.

112. It is reported that to date over 16,000 Glasgow citizens have received an award from the Scottish Welfare Fund and the council's 2014/15 allocation from the Fund of £7.7m was fully committed.

Housing and council tax benefits performance audit

113. A risk assessment was previously carried out on the council's benefit service in April 2012 when Audit Scotland identified 21 risks to continuous improvement. In response the council submitted an improvement action plan aimed at addressing these risks. A further follow up audit was carried out by Audit Scotland and reported in February 2015. This concluded that the council had made significant progress against the original 21 risks identified. Although some actions remain to be fully completed, the council's future proposals, including its Risk Mitigation Governance Arrangements, will make a positive contribution to the continuous improvement of the council's housing benefit service.

Local scrutiny plan

114. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners highlighted a range of risk-based and nationally driven scrutiny activity and was submitted to the Finance and Audit Scrutiny Committee on 17 June 2015.

115. The planned scrutiny included a review by the local Audit Scotland team of Social Work Services and their contract arrangements with external service providers. This review has been completed and was reported to the Finance and Audit Scrutiny Committee on 19 August 2015. A summary of our findings from this review are noted at paragraph 135.

116. The LSP highlighted the planned engagement by the Scottish Housing Regulator in monitoring the council's homelessness services improvement plan and that the Regulator would require the council to produce evidence of improved outcomes for users of its homelessness services. Following the recent resolution of the industrial action by staff within the homelessness service, the Scottish Housing Regulator has asked the council to provide the assurance that it is reviewing its plan to improve services for homeless people in the city and giving priority to the improvements that are needed. A revised improvement plan has been prepared and is currently being considered by the Regulator.

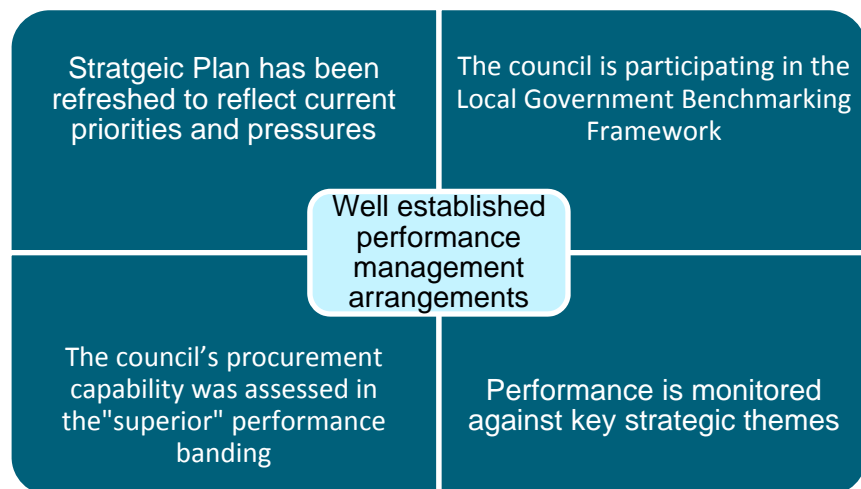
Refer action point 5

Outlook

117. 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.

- 118.** 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.
- 119.** 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



120. 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 in those services they provide directly as well as those provided through arm's length external organisations.

Best Value

121. Overall the council has a well established and sound approach to best value including clear strategic priorities and a strong focus on monitoring and reporting performance.

Procurement

- 122. The council is committed to ensuring the effective procurement of goods and services and approved in March 2014 a two year corporate procurement strategy aimed at supporting the delivery of the council's strategic plan. The progress report in achieving the strategy's action plan, put to the Executive Committee in December 2014, showed that at the end of year one, 35 of the 68 actions had been completed and that no high risk issues remained outstanding.
- 123. In 2009 the Scottish Government introduced an annual evidence-based assessment: the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council achieved a score of 76% or a status of "superior" performance against the most recent PCA.

Shared services

124. The council works jointly with various outside organisations in the planning and delivery of joint initiatives and projects aimed at improving efficiency. Extensive action has been taken as part of the council's service reform programme to facilitate the sharing of services within the council by centralising the main support activities. The efficiency of shared services and the delivery of savings is regularly monitored by senior management and progress reported to members.

Following the Public Pound

125. The Chair of the Accounts Commission wrote to all council Leaders and council Chief Executives in March 2015 highlighting the importance of holding to account arm's length external organisations (ALEOs) and fulfilling their statutory obligations in respect of compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound. This code is based on the premise that to ensure public money is used properly and that Best Value is being secured, it must be possible to "follow the public pound" across organisational boundaries.
126. From our annual reviews of various aspects of the council's arrangements with its ALEOs, we have reported that while there is scope for some improvements, overall the council has a well structured process for monitoring the performance of ALEOs. The council is in the process of carrying out a detailed review of its ALEOs, covering the council's ALEO and service structure and service provision and initial reports are expected by the end of 2015.
127. However we note the following examples which have arisen during 2014/15 where the council used information provided by its ALEO to assess best value :
- **Phase 5 Schools Refurbishment Programme**
The refurbishment element of this contract valued at £150m, was awarded to City Building (Glasgow) (CBG) without competitive tender as permitted under the "Teckal" arrangement. The council's Education Estates Strategy Board (EESB) asked CBG to provide evidence that its schedule of

rates for a contract of this size, demonstrated better value than a schedule of rates used previously by them to win a contract in a competitive environment. A report was prepared by the Internal Auditors of CBG, who are also the Internal Auditors of Glasgow City Council, noting their findings from a comparison of a sample of rates. This report was considered by the Chair of the Education Estates Strategy Board (the Executive Director of Corporate Services) and the Executive Director of Financial services. The report was not submitted to a meeting of the EESB but instead a verbal update was given by the Chair noting that the assurance check by the Audit Team was concluded and the outcome was favourable.

- A report to the EESB meeting of 11 February 2014 recommended that the council's Financial Services carry out a "best value sign off" of the schedule of rates based on the comparison carried out by CBG. It is not evident that such an exercise was carried out.
- **Cathkin Landfill Site: 2015 Development Remediation Works**
This contract is valued at £13.2m and was awarded to CBG without competitive tender. We are advised that a Best Value assessment was carried out by CBG including an independent evaluation of tender returns for part of the contract . While the results of this evaluation were subsequently reported to council officers, there is no record of the results being formally

reported to the council's senior management and the council concluding on the demonstration of best value.

- **Land and Environmental Services: Plant Hire**

This contract is valued at £1.5m per annum. A best value assessment on this contract was not carried out. (Internal Audit report August 2015)

Refer action point 6

Performance management

128. The council's performance management framework is well established and embedded in the management monitoring and reporting processes. Performance is monitored against the key themes included in the council's Strategic Plan and is reported to the policy development and scrutiny committees as well as the council's Extended Council Management Team. 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
129. The Local Government Benchmarking Framework (LGBF) provides benchmarking comparisons for all 32 Scottish local authorities, the aim of which is to provide consistent performance data across authorities and to facilitate meaningful performance benchmarking. The council reports its performance against the performance indicators in the LGBF and publishes the results on its website.
130. The council's performance in 2013/14 has been measured against the LGBF and was reported to the Operational Delivery Scrutiny

Committee in May 2015. This shows that overall the council occupies a mid-range position across the range of indicators when compared with other councils. The report includes 3 years of comparative data across councils and highlights specifically those indicators which were ranked within the highest and lowest quartiles and as such fall outwith the mid range position.

Overview of performance targets in 2014/15

131. The council's Annual Performance Report for 2014/15 was reported to the Executive Committee in August 2015. This presents the council's progress against its priorities included in the Council Strategic Plan 2012 to 2017 and presents progress against each of the council's five key themes. There are 98 commitments which have been identified of which 92% have been rated as green ie where the action is either complete or is on target.
132. Each service in the council produces an Annual Service Plan and Improvement Report which outlines key performance measure as well as budget proposals and targets. We have raised in both our 2012/13 and 2013/14 annual audit reports concerns over three particular indicators. We note that performance with regard to the percentage of looked after and accommodated children aged under 5 who have had a permanency review and the percentage of decision notifications issued within 28 days of initial presentation (temporary accommodation) have improved and are now closer to target levels. Performance against the indicator for the percentage of older people resident in purchased Care Home placements reviewed in the last twelve months has worsened during 2014/15

(target:100%, actuals:34% 2014/15, 37% 2013/14 and 41% 2012/13). The ASPIR report notes that the target has not been met despite the introduction of a revised review process and fails to report the corrective action planned to address this area where targets are not being met.

133. Performance in this aspect of Social Work services is below target and does not appear to be improving. This is an area of risk that we will take forward as part of our shared risk assessment process with the Care Inspectorate.

Statutory performance indicators (SPIs)

134. 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.
135. For 2014/15 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relating to the reporting of performance information as required by the Local Government Benchmarking Framework.

136. Overall we concluded that the council's arrangements were satisfactory.
137. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Glasgow City Council was issued to the Leader and Chief Executive in July 2015.
138. The assessment of the council's approach to public performance reporting concluded that it fully met requirements with regard to reporting a balanced picture, made good use of comparators and financial and cost information and demonstrated a good dialogue with the public. The following aspects were identified as being areas for improvement: improving the structure of public performance reporting with clearer presentation of information, being clearer on what the council will do with the valuable feedback produced by the Household Surveys and improving the accessibility by the public on performance information.

Local performance audit reports

139. As part of our 2014/15 audit we reviewed and tested the processes for the payment of Social Work providers of care. Based on the findings of our testing we found the procedures for the approval of invoices within Customer Business Services (CBS) for payment to be adequately controlled. We identified the need to ensure the existence of formal service level agreements or contracts between

the council and providers and that providers used by social work services are those included on the restricted standing list or equivalent and as such have been formally assessed as suitable. Our Review of Payments to Social Work Providers was put to the Finance and Audit Scrutiny Committee in August 2015.

140. We have also carried out a review of ALEOs focusing on aspects of the service level agreements in place between the council and Culture and Sport Glasgow, trading as Glasgow Life, and in respect of the Repairs and Maintenance Agreement with City Building (Glasgow) Limited Liability Partnership. We also followed up progress in implementing the actions plans agreed from our previous Reviews of ALEOs.
141. We found that the council has a clear and well structured framework for monitoring the performance of City Building (Glasgow) and Glasgow Life and that progress continues to be made against the previously agreed actions.
142. As reported earlier, we have concerns over certain aspects of the council's arrangements for demonstrating the best value of the contract awarded for the Phase 5 Schools Refurbishment programme to City Building (Glasgow). Our Review of ALEOs report is currently still in draft and is at the final stages of clearance in discussion with the council.

National performance audit reports

143. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Scotland. During 2014/15, 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.

144. **Community Planning:** Audit Scotland has audited 8 community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. The audit report on Glasgow CPP was published in April 2014 as part of the second tranche of five CPP audits that took place during 2014/15.
145. The audit focused on:
- Whether the Glasgow CPP has set a clear strategic direction, agreed by all partners, which reflects Glasgow's needs.
 - Whether Glasgow CPP's governance and accountability arrangements are appropriate and allow it to improve outcomes for local people.
 - How well the CPP is aligning and directing resources to deliver joint priorities and agreed outcomes.
 - How well the CPP is performing in delivering the outcomes contained in its single outcome agreement (SOA).
146. This report included a six point improvement agenda for the CPP and in 2015 Audit Scotland carried out some follow up work to assess what progress the CPP has made in addressing these improvement areas.

- **Performance management and evaluation:** We found that Glasgow CPP has continued to make progress across its three SOA priorities through a series of SOA implementation plans. A performance management framework was approved in March 2015 which includes the publication of performance data, a health check survey amongst partners examining how well the partnership is doing in terms of leadership, committing resources and planning. There are also proposals in place to carry out an evaluation of the success of CPP partners in working towards the SOA.
- **Governance and accountability:** Scrutiny and accountability has improved at a sector level with sector CPPs now receiving regular progress reports on the delivery of SOA priorities at a local level and further plans to include more detailed performance data in these reports.

The CPP continues to assess and review the structures of the CPP to ensure they are fit for purpose, most recently looking at the function and delivery of youth employment services and should continue to carry out these reviews across all structures.

- **Communication and engagement:** The CPP has put in place actions to improve communication and engagement with the local community in the work of the CPP through a series of events, activities and publications. This included the publication in June 2015 of the first annual report on community planning, the first annual Glasgow CPP conference which will take place in October 2015 and various other stakeholder and community events that are planned throughout the year.

147. **Commonwealth Games 2014:** Audit Scotland published its third report on the Commonwealth Games in March 2015. The overall aim of this review was to answer the question: Was the Commonwealth Games 2014 delivered within budget and is it achieving value for money.
148. The report was very positive with the overall conclusion that the Games were a success for both Glasgow and Scotland. Around 1.2 million tickets were sold, over 4,800 athletes took part and £118m was raised from ticket sales, sponsorship and other private funding. Strong controls and good planning resulted in a £37.2m underspend of public money. The project had strong leadership and organisations worked well together. Clear legacy plans are in place and the Scottish Government and Glasgow City Council now need to build on these to ensure long-term benefits are achieved.

Equalities

149. 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 quality of outcomes it has set.
150. The council published on its website the April 2015 report on mainstreaming equality in service delivery and progress towards the equality outcomes. The council has a total of 46 actions divided between 10 equality outcomes and the report highlights that the council is on track to deliver its equality outcomes, with the majority

of actions (85%) being assessed by the council as “green” half way through the lifetime of the plan.

Outlook

151. 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. Savings have been made in recent years largely through service reforms and reductions in the workforce. However, 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. The success of the council’s new Transformation Strategy will be critical in the delivery of the council’s key priorities.

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 in financial statements		
<p>Fraud: income recognition</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.</p> <p>Risk</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"> • We evaluated accounting policies for income and expenditure and reviewed accounting estimates. • We tested a sample of journal entries processed both during and at the end of the year. • We evaluated the effectiveness of systems of internal control for income recognition and recording. We also undertook analytical review and other substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements and identified any unusual transactions or variations in income. 	<p>No issues were identified and we were able to conclude that controls were operating effectively</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk of management override of control</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.</p> <p>Risk</p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • We tested the appropriateness of journal entries and other adjustments recorded in the financial ledger and financial statements. • We reviewed the accounting estimates applied for bias. • We evaluated any significant transactions outside the normal course of business. • We focussed our testing on the regularity and cut-off assertions during the financial statements audit. 	<p>We did not identify any instances of management manipulating accounting records or overriding controls.</p>
<p>Capital accounting</p> <p>The council’s 2013/14 financial statements submitted for audit wrongly accounted for expenditure as assets under construction (AUC), which should have been reported as operational land and buildings or eliminated where already accounted for.</p> <p>Risk</p> <p>There remains a risk that capital accounting procedures do not ensure the correct classification of the council’s non current assets in the balance sheet.</p>	<ul style="list-style-type: none"> • We carried out an overview of the nature and closing value of all assets included in the council’s asset register. • We carried out detailed testing of those assets categorised as assets under construction to supporting records. • We reviewed the testing carried out by corporate finance officers on the operational status of assets under construction. 	<p>Our testing did not identify any misstatements in the value of AUC included in the 2014/15 financial statements.</p> <p>We identified £16m of operational assets which were wrongly included in AUC in the 2013/14 comparatives column in the 2014/15 financial statements. The net effect of this adjustment would have been £1.4m in the 2014/15 Comprehensive Income and Expenditure Account.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>New group accounts standards</p> <p>The 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom has adopted new group accounts standards. The new standards mean that decisions made under previous standards regarding the classification of entities will need to be reviewed to confirm they remain appropriate.</p> <p>Risk</p> <p>There is a risk that the council's group accounts do not comply with the new accounting standards.</p>	<ul style="list-style-type: none"> We reviewed those entities included and excluded from the council's group boundary to ensure compliance with the new group accounts standards. 	<p>We did not identify any instances of non compliance with the new group account standards.</p>
<p>Requirements of new accounting regulations</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 have introduced some changes to the contents of the financial statements. These include the inclusion of a management commentary. The Code encourages authorities to take into account the requirements of the Government financial reporting manual for management commentaries. The new regulations also require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature.</p> <p>Risk</p> <p>There is a risk that the council's accounts do not fully comply with the requirements of the new accounting regulations.</p>	<ul style="list-style-type: none"> We closely liaised with council finance officers on the committee timetable for the consideration and approval of the financial statements in line with the 2014 Regulations. We assessed the management commentary included in the 2014/15 financial statements against the 2014 Regulations. 	<p>We have not raised any issues concerning non compliance with the Local Authority Accounts (Scotland) Regulations 2014.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Landfill restoration and maintenance costs</p> <p>The council accounted for a provision of £43.5m in the 2013/14 accounts relating to the costs of landfill restoration and maintenance and capitalised this expenditure in the financial statements. The site is now closed and the council is required to complete the restoration of it by 30 September 2015.</p> <p>Risk</p> <p>There is a risk that the costs associated with landfill restoration and maintenance are not disclosed in the 2014/15 financial statements in line with proper accounting practice.</p>	<ul style="list-style-type: none"> • We reviewed the calculation and accounting for the year end provision for landfill restoration and maintenance costs • We considered the progress made against the planning enforcement deadline of 30 September 2015 • We considered the appropriateness of the disclosure of the contingent liability in the 2014/15 financial statements relating to the delays in completing the restoration work and not meeting the 30 September 2015 deadline. 	<p>We are satisfied with the accounting entries for the expenditure on the restoration and maintenance of this landfill site in 2014/15.</p> <p>However the council has not complied with the Planning Enforcement Order which required the completion of the restoration work by 30 September 2015.</p> <p>Following discussions with South Lanarkshire Council the timeframe for completion of the restoration works has been extended to 30 November 2016.</p>
<p>Risks identified from the auditor’s wider responsibility under Audit Scotland’s Code of Audit Practice</p>		
<p>Financial position</p> <p>The council has identified savings of £20.5m as being necessary to meet a funding gap for 2014/15. As in previous years, most of these savings are to be achieved through service reforms.</p> <p>Risk</p>	<ul style="list-style-type: none"> • We reviewed financial monitoring reports to the Finance and Audit Scrutiny Committee and Executive Committee • We tested of a sample of transactions 	<p>Performance against the revenue budget was closely monitored throughout the year with the council reporting a total overspend of only £1m on</p>

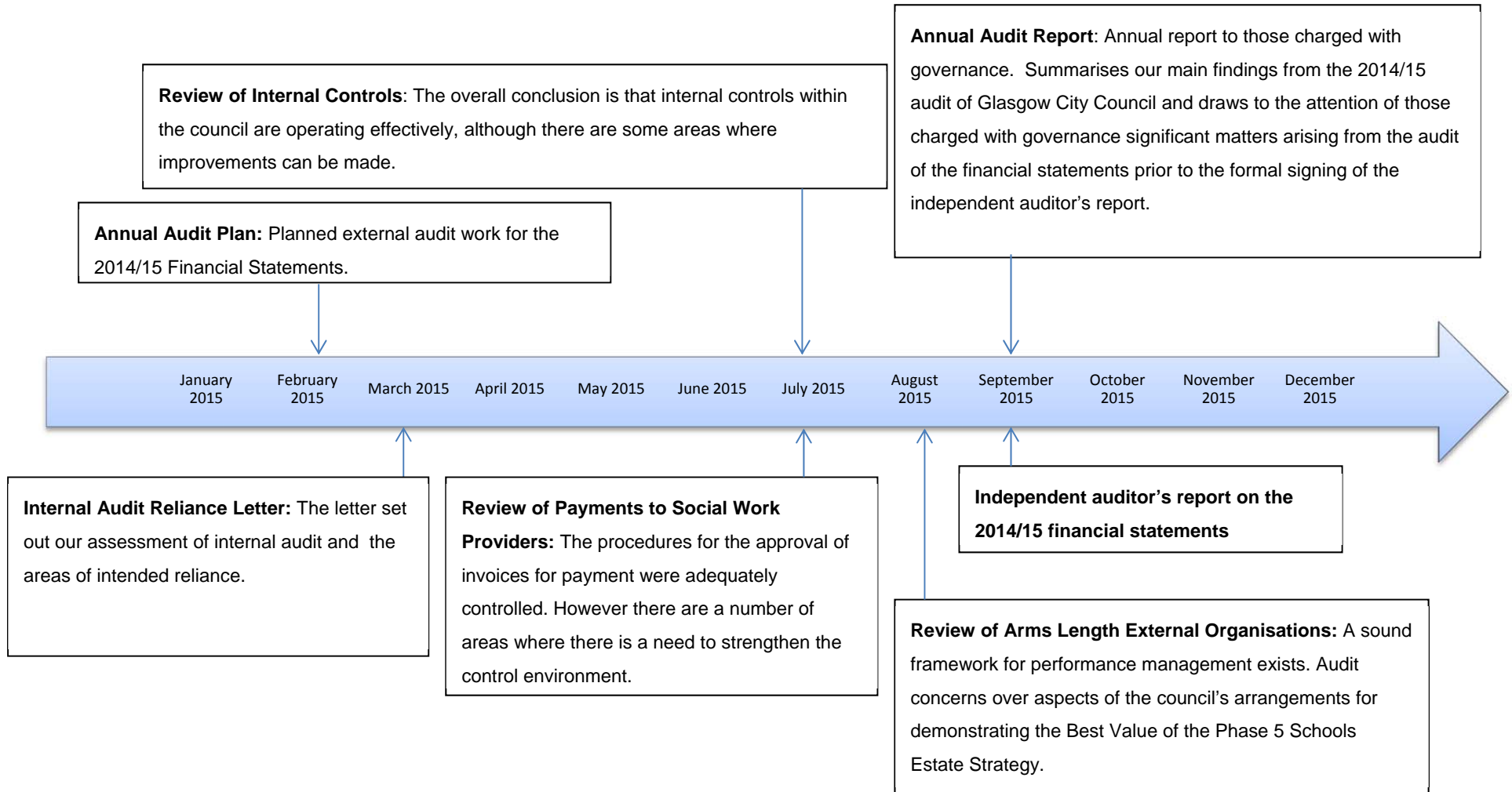
Audit Risk	Assurance procedure	Results and conclusions
<p>There is a risk that savings targets are not met and the ongoing need to deliver savings may have an impact on services and the delivery of strategic priorities.</p>	<p>taken from both pre- and post-year end to confirm expenditure and income had been accounted for in the correct financial year.</p>	<p>services.</p>
<p>Arm's Length External Organisations (ALEOs)</p> <p>Many of the council's services key to the delivery of its priorities and objectives are provided on its behalf by ALEOs. The value of the net payments to ALEOs is material and represents approximately 25% of the council's annual total net revenue expenditure.</p> <p>Risk</p> <p>As under an arm's length arrangement the council loses direct control over the day-to-day management of the service, there is a risk that the council cannot demonstrate how public money is being spent and ensure the provision of quality services.</p>	<ul style="list-style-type: none"> • We carried out a focused review of aspects of the service level agreements in place for: <ul style="list-style-type: none"> - City Building (Glasgow) Limited Liability Partnership - Repairs and Maintenance - Culture and Sport Glasgow, trading as Glasgow Life. • We considered the council's arrangements for monitoring the performance of these two ALEOs and for ensuring the achievement of best value and the proper use of public funds. • We considered progress made against the agreed management actions resulting from our 2012/13 and 2013/14 reports on ALEOs. 	<p>The council has a well structured framework for monitoring the performance of City Building and Glasgow Life. We have concerns over certain aspects of the council's arrangements for demonstrating the best value of the £150m contract awarded for the Phase 5 Schools Refurbishment programme</p> <p>Refer : Review of ALEOs Report (in draft) Action point 6</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Social Work contracts with external service providers</p> <p>The control environment over the monitoring of contracts held by Social Work Services, as managed through the Contract Management Framework, has been assessed by the council’s internal audit section as containing serious deficiencies where the potential financial and operational risk exposure was significant. An action plan has been agreed to address all of the issues raised.</p> <p>Risk</p> <p>There is a risk the control environment is not improved in line with agreed timescales and weaknesses in managing contracts with private service providers continue.</p>	<ul style="list-style-type: none"> • We tested the processes within Customer Business Services (CBS) for paying social work providers to ensure the proper checking and approval of providers’ invoices (our review did not cover controls over the confirmation of clients records on the Carefirst system) • We reviewed the existence of service level agreements / contracts between providers and the council. 	<p>Based on the findings of our testing, the procedures for the approval of invoices for payment were adequately controlled.</p> <p>Improvements are required to ensure the existence of formal service level agreements or contracts and that providers used by social work services are those included on the restricted standing list of providers or equivalent.</p> <p>Refer:</p> <p>Review of Payments to Social Work Providers Report July 2015</p>
<p>Health and social care integration</p> <p>A “body corporate” has been established between the council and NHS Greater Glasgow and Clyde for Health and Social Care Integration. A Shadow Integration Joint Board (SIJB) has been set up and met for the first time in June 2014. Work is currently ongoing to develop an integration scheme and strategic plan for the Joint Integration Board for approval by the</p>	<ul style="list-style-type: none"> • We reviewed progress including a meeting with the shadow Integrated Joint Board’s designated Chief Officer. • We reviewed of minutes and reports to the shadow integration joint board 	<p>Progress is continuing with priority being given to finalising the Integration Scheme and the Strategic Plan to ensure the integrated arrangements are in place by the deadline of 1 April 2016.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>council and NHS Greater Glasgow and Clyde in early 2015.</p> <p>Risk</p> <p>There is a risk that agreement between the council and NHS board may not be obtained by early 2015, which could jeopardise ministerial approval being obtained by April 2015. Integration arrangements must be in place by 1 April 2016.</p>		<p>Refer: Action point 4</p>

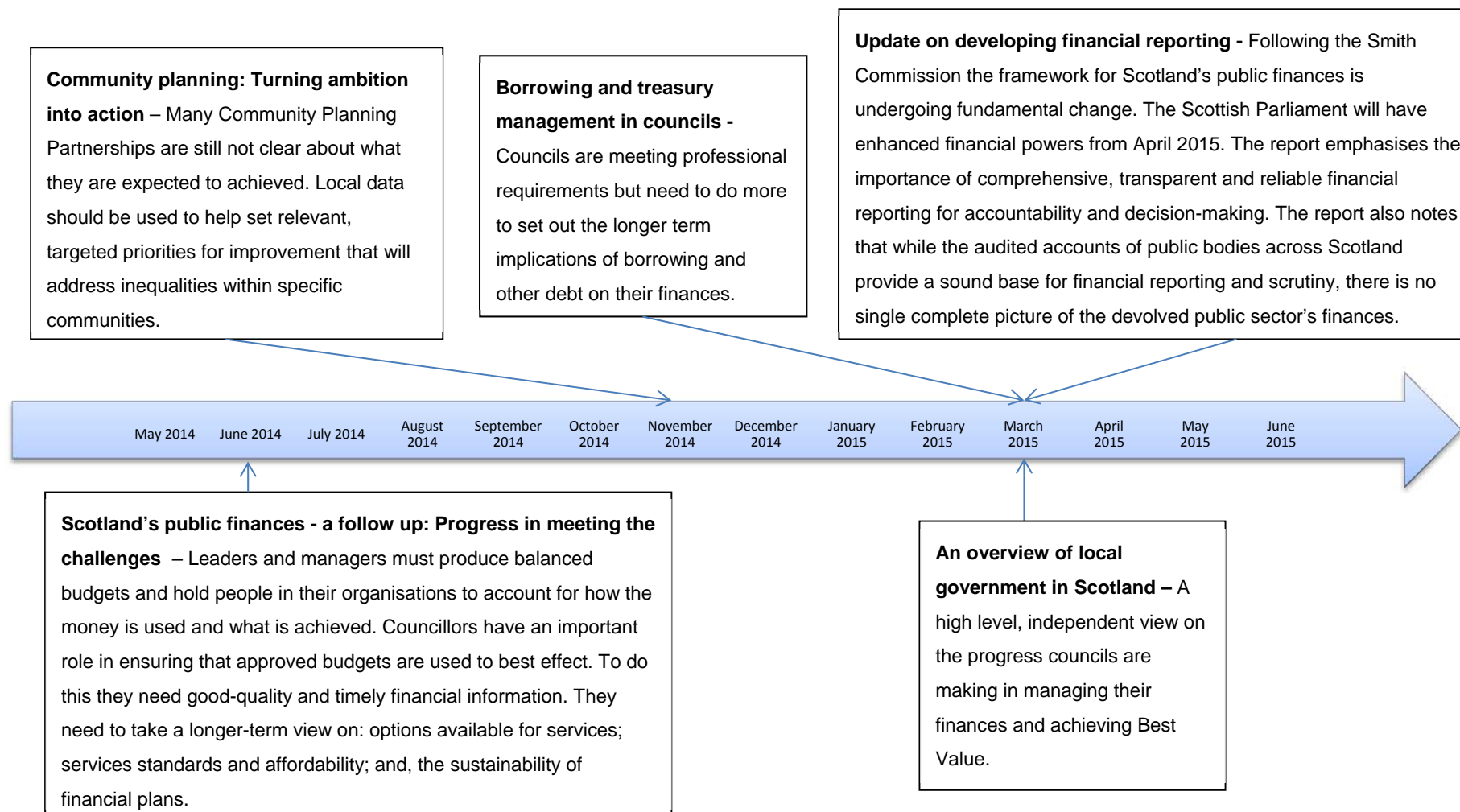
Appendix II

Summary of Glasgow City Council local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2014/15



Appendix IV

Action plan

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1. Para 24	<p>Issue</p> <p>The council is aware that one of its subsidiaries has not fully complied with European Funding Regulations.</p> <p>The council's Internal Auditors have carried out a review of the council's processes for checking and approving grant claims for European Structural Funds. The audit found that the control environment was not adequate to ensure that accurate claims were submitted and identified areas where the grant conditions had not been complied with.</p> <p>Risk</p> <p>The council has to repay European Grant funding and there is an adverse impact on the sustainability of those projects previously in receipt of this funding.</p> <p>Recommendation</p>	<p>The council is currently reviewing its approach to the European funding regulations.</p> <p>Improvements to the governance and control of grant claims will be introduced following completion of this review.</p>	Executive Director of Financial Services	March 2016

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
	Controls over the checking and approving claims for European grant funding should be improved.			
2. Para 53	<p>Issue</p> <p>The council has identified the need for future savings totalling £103m in the years 2016/17 and 2017/18. Given the significant value of savings already achieved to date through service reforms and workforce reductions, this will be a significant challenge.</p> <p>Risk</p> <p>The level of planned budget savings cannot be achieved without adversely impacting on the levels and quality of services</p> <p>Recommendation</p> <p>The progress and impact of any future service and workforce reforms on target savings and service delivery should continue to be closely monitored.</p>	The council is currently identifying proposals to deliver savings as part of the Transformation Glasgow Programme.	Executive Directors/Director of Transformation	February 2016

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3. Para 96	<p>Issue</p> <p>The council has not yet followed up all the matches highlighted by the DWP relating to private residential care homes and deceased residents.</p> <p>Risk</p> <p>The council continues to pay providers of private residential care after the death of a resident.</p> <p>Recommendation</p> <p>The council should follow up as a priority the NFI matches relating to cases where a resident has died but the council may not have been notified.</p>	<p>The Council received over 36,000 matches from the latest NFI return in February 2015. Work has been ongoing since then to investigate these matches. The strategy has been to focus on the high priority matches first. All high priority matches relating to deceased residents have been investigated and cleared. Remaining matches that we intend to investigate will be cleared by 31 October 2015.</p>	<p>Head of Audit and Inspection</p>	<p>October 2015</p>

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4. Para 106	<p>Issue</p> <p>The council and its partner in the integration of health and social care services, Greater Glasgow and Clyde Health Board, are still in the progress of developing the Strategic Plan which is required to be in place by the deadline of 1 April 2016.</p> <p>Risk</p> <p>There are delays in the commencement of the Integrated Joint Board and achieving the desired outcome of improved services to those in need of care.</p> <p>Recommendation</p> <p>The council continues to work jointly with its partner in finalising the arrangements for the integration of health and social care.</p>	The council will continue to work with Greater Glasgow and Clyde Health Board to ensure the implementation of integrated services by 1 April 2016.	Chief Officer Designate	April 2016

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5. Para 116	<p>Issue</p> <p>The industrial action within the homelessness services is likely to have had an adverse impact on progressing the improvement plan agreed between the service and the Scottish Housing Regulator. A revised improvement plan was prepared and submitted to the Regulator on 31 August 2015.</p> <p>Risk</p> <p>The council fails to meet its statutory duties with respect to homelessness and improved outcomes for the users of its homelessness services are not achieved</p> <p>Recommendation</p> <p>Implementation of the revised improvement plan should be progressed as a priority to secure improvements to the services provided to homeless people in the city.</p>	<p>The council will continue to implement the proposals within the revised plan.</p>	<p>Chief Officer Designate</p>	<p>Ongoing</p>

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6. Para 127	<p>Issue</p> <p>The council has at times used information provided by City Building (Glasgow) for demonstrating the best value of the contracts awarded to City Building (Glasgow) without competitive tender.</p> <p>Phase 5 Schools Refurbishment programme :</p> <p>The results of the comparison of the schedule of rates prepared by City Building (Glasgow) were not reported in writing to a meeting of the Education Estates Strategy Board nor is there evidence that the council's Financial Services completed a best value sign off as recommended</p>	<p>Generally the council believes it demonstrates best value in relation to the use of City Building (Glasgow)</p> <p>A report was prepared by the Internal Auditors of City Building (Glasgow), who are also the Internal Auditors of Glasgow City council, noting their findings from a comparison of a sample of rates. This report was considered by the Chair of the Education Estates Strategy Board, the Executive Director of Corporate Services, and the Executive Director of Financial Services.</p> <p>The Education Estates Strategy Board received a verbal update from the Chair noting that the assurance check by the Internal Audit Team was concluded and the outcome was favourable.</p>		

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
	<p>Cathkin Landfill Site : 2015 development remediation works contract :</p> <p>The results of the best value assessment carried out by City Building (Glasgow) themselves, were not formally reported to senior council officers to conclude on the achievement of best value</p> <p>Risk</p> <p>There is either a real or perceived conflict of interest in the council's assessment of best value and the council cannot demonstrate best value has been achieved.</p> <p>Recommendation</p> <p>The council should ensure that where information is provided by its ALEOs as part of a best value assessment, this is subject to adequate formal review and reporting by the council.</p>	<p>City Building (Glasgow) provided an independent evaluation of tender returns which was reported to council officers.</p> <p>In each of these cases it is the council's view that appropriate steps were taken to provide assurance in relation to best value.</p> <p>However in the light of the recent internal audit report in respect of Land and Environmental Services Plant Hire, the council will undertake a review of procurement procedures between services and ALEOs as part of the council family review and part 2 of the corporate procurement strategy .</p>	<p>Head of Legal and Administration</p>	<p>November 2015</p>

No. para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date