Glasgow City Council

2021/22 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Members of Glasgow City Council and the Controller of Audit

April 2023

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Key messages

2021/22 annual accounts

1 Our audit opinions on the annual accounts of the council and its group are unmodified.

2 The audit completion timeframe has been impacted as a result of the ongoing effect of Covid-19, the resource challenges needed to maintain audit quality and requirement for further assurances around asset valuations and the impact of greater certainty around the council's equal pay obligations.

3 Our audit identified a number of significant adjustments that impact on the council's annual accounts, which have been corrected in the financial statements.

Financial management

4 The council has appropriate and effective financial management arrangements in place. In 2021/22, services recorded a small overspend of £1.8 million (0.1%) against budget.

5 The Covid-19 pandemic continued to have a significant impact on the council and its operations in 2021/22.

6 The council has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities.

Financial sustainability

7 The council continues to face significant challenges and uncertainty in maintaining a sustainable financial position over the medium to long term whilst delivering its strategic objectives. It is important that the council continually reviews and updates its longer-term financial plans as soon as there is more clarity around the financial impact of these uncertainties.

Governance and transparency

8 Overall, the council's governance arrangements operated effectively throughout the year. However, the council has identified areas for improvement in relation to its ICT arrangements and governance arrangements over joint ventures and systems of internal control.

9 The council demonstrates its commitment to conducting its business in an open and transparent way through the recording of committee meetings and availability of information through the council website.

Best Value

10 The council has an appropriate and effective best value framework in place, including arrangements for following the public pound.

11 Specific agreed actions in response to our 2018 Best Value Assurance Report were completed by March 2020, and ongoing wider work will continue with progress reported within existing governance structures.

12 Performance management arrangements provide a sound base for improvement.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Glasgow City Council (the council) and its group.

2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 3 August 2022 meeting of the Finance and Audit Scrutiny Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 namely, financial management, financial sustainability, governance and transparency and value for money.

3. The main elements of our audit work in 2021/22 have been:

- an audit of the annual accounts of the council and its group and the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- follow-up work on our 2017/18 Best Value Assurance Report (BVAR)
- consideration of the four audit dimensions

Adding value through the audit

4. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

5. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

6. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice 2016 and supplementary guidance, and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- best value arrangements.

9. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016. and supplementary guidance.

10. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £669,850 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

14. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Ernst and Young will be the appointed auditor for the council. We are working closely with the new auditors to ensure a well-managed transition.

16. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. There are several significant changes introduced by the new Code, namely the integration of best value work into wider scope audit work and the audit of best value across the Integration Joint Boards.

18. We would like to thank management, council and Committee members, Executive Directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts of the council and its group are unmodified.

The audit completion timeframe has been impacted as a result of the ongoing effect of Covid-19, the resource challenges needed to maintain audit quality and requirement for further assurances around asset valuations and the impact of greater certainty around the council's equal pay obligations.

Our audit identified a number of significant adjustments that impact on the council's annual accounts, which have been corrected in the financial statements.

Our audit opinions on the annual accounts are unmodified

19. The accounts for the council and its group for the year ended 31 March 2022 were considered at the Finance and Audit Scrutiny Committee (FASC) on 19 April 2023 and approved by the City Administration Committee (CAC) on 20 April 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

The annual accounts were submitted in line with our agreed audit timetable

20. The unaudited annual accounts and working papers were received in line with our agreed audit timetable on 30 June 2022. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit.

21. Our original audit timetable included a target date for the delivery of our final outputs of 31 October 2022. However, as a result of the ongoing impact of Covid-19 and the need to maintain the quality of our audit, we had to review our resource plans across all audits and reschedule our planned audit input. As noted in the significant findings section of this report, further assurances were required on asset valuations and equal pay obligations during the course of the audit, which impacted on the audit completion timeframes. We agreed a revised timetable with officers on the delivery of our audit fieldwork for completion by April 2023. The audited accounts were approved by the CAC in April 2023.

Public inspection requirements were not fully met, however there were no objections raised to the annual accounts

22. Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 requires local government bodies to give public notice on their websites by 17 June (at the latest) of the right to inspect its annual accounts. The accounts should be available for inspection from 1 July at the latest, for a period of 15 working days from the date specified in the notice.

23. As part of our audit, we confirmed the council's accounts were available for inspection from 1 July, in line with the regulations. However, the public inspection notice did not appear on the council's website until 20 June 2022, three days after the deadline set in the regulations. There were no objections to the 2021/22 annual accounts.

Whole of Government Accounts has been delayed at a UK level

24. Whole of Government Accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to submit returns for the preparation of WGA. The returns are consolidated into WGA by HM Treasury. WGA is audited at a UK level by the National Audit Office (NAO), who issue Group Audit Instructions.

25. Appointed auditors in Audit Scotland are required by the Code of Audit Practice, as part of their audit appointment, to examine and report on WGA returns prepared by Scottish audited bodies. Auditors are required to report the results of their examination in an Assurance Statement. The examination and reporting process performed by auditors is therefore described as auditor assurance.

26. The process for 2020/21 is running significantly late. HM Treasury issued its guidance for preparers on 27 April 2022 and the NAO issued its Group Audit Instructions on 14 July 2022. The OSCAR II system has been open for 2020/21 submissions since April 2022.

27. HM Treasury and the NAO set a date for certified returns of 31 August 2022 which the Scottish Government agreed to for Scottish bodies. The deadline was then subsequently moved to 30 September 2022.

28. HM Treasury has set an increased threshold for auditor assurance for bodies in England (£2 billion). Scottish Government has agreed the same threshold for Scottish bodies. At the time of writing, the council has not yet submitted the Whole of Government Accounts (WGA) 2020/21 consolidation pack.

Overall materiality is £25 million for the council and £26 million for the group

29. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

30. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

31. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Glasgow City Council Financial Statements	
Overall materiality	£25 million
Performance materiality	£16 million
Reporting threshold	£250 thousand
Group Financial Statements	
Overall materiality	£26 million
Performance materiality	£17 million
Reporting threshold	£250 thousand

Source: Audit Scotland

We have significant findings to report on the audited annual accounts

32. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. Significant findings arising from our work relate to how the council obtains assurances on the carrying value of land and buildings not subject to revaluation during the year and to the increase in the equal pay provision arising from events after 31 March 2022.

33. The significant findings are summarised in Exhibit 2 and are included in the action plan at Appendix 1.

Exhibit 2
Significant findings from the audit of financial statements

Issue	Resolution
1. Land and buildings valuations The Code of Practice on Local Authority Accounting requires authorities to revalue land and buildings with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Land and buildings valuations are undertaken by valuers (City Property). The council adopts a rolling programme of revaluations. While over 60% of assets were revalued as part of the 2021/22 revaluation programme, there were over £1.1 billion of assets not subject to revaluation in year. As a result of building cost inflation, subsequent audit challenge of Management and the valuer around the carrying value of assets not subject to revaluation, concluded that there was a significant risk these could differ materially from current value. The council's valuers undertook a revaluation of £1bn of assets. This exercise identified a combination of £105 million of upward and £104 million of downward revaluation movements. Given timescales in processing these movements, officers recognised the material balances within these including: • six assets with total downward revaluation of £88 million	We recommend that the valuation process could be enhanced through establishing a matrix process to valuations to better inform Management around the potential requirement for additional valuations in a particular year around the remaining class of assets not subject to revaluation. In addition, the annual valuation summary certificate prepared by City Property should provide enhanced details of the methodology applied in completing the revaluation programme, including the process and outcome of procedures for identifying impairments and other significant movements during the year. There should be clear evidence of how management have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement. **Recommendation 1** (Refer Appendix 1, action plan point 1)

Issue	Resolution
• 13 assets with cumulative upwards revaluation of £80 million. The council has updated the financial statements and disclosures to recognise the revised valuations for this group of assets. We have concluded the remaining assets included at carrying value do not present a risk of material misstatement. The valuation process could be enhanced to better inform management where there is an indication that carrying value of assets may differ materially from current value. This includes potentially adopting a matrix approach to valuations through valuing a sample of assets across different class of assets to identify any potential indication of material movements across the class of assets that may require the full class to be revalued. In addition, there is an opportunity to enhance the valuation process including greater clarity over the approach and judgements made by the valuer as well as processes in identifying any impairment of assets.	
2. Provision for equal pay Following the completion of the unaudited accounts the council has reached a settlement in relation to outstanding equal pay claims for the main claimant group. In the unaudited financial statements, the council recognised a provision of £30 million in respect of this group and a contingent liability in respect of remaining liabilities. In accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, the council now has sufficient certainty around the obligations and is therefore required to recognise a provision for these obligations.	The council has updated the accounts to recognise a provision for the estimate of the full obligation, an increase of £230 million to the provision, resulting in a total provision of £260 million for this group. During the course of our audit the Scottish Government issued Statutory Guidance that allowed these costs to be recognised within Employee Statutory Adjustment Account and thus not directly impact on the General Fund. Further consideration of the Equal Pay provision is included within this report at Section 3 – Financial Sustainability – Equal Pay.

Source: Audit Scotland

34. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements identified in the annual audit plan

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	**Controls** • Assessed the design and implementation of controls over journal entry processing. **Testing** • Made inquiries of relevant individuals about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries and focus on significant risk areas. • Considered the need to test journal entries and other adjustments during the period. • Evaluated significant transactions outside the normal course of business. **Related Parties** • Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. **Methodology and Assumptions** • Assessed any significant changes to the methods and underlying	**Results & Significant Judgements:** **Controls** Controls in place for reviewing significant manual journals operated effectively throughout most of the year. For those periods where the control did not operate effectively, we carried out focused substantive testing at year-end. No issues were identified from this work. **Testing** We made inquiries of individuals involved in the financial reporting process around inappropriate or unusual activity relating to journal entries. No issues were identified. Our substantive testing of journals focused on significant manual journals at year-end and those from earlier in the year where limited controls assurance was obtained (noted above). No issues were identified from this work. We tested a sample of accruals and prepayments and evaluated significant transactions outside the normal course of business. No issued were identified through this testing.

Audit risk	Assurance procedure	Results and conclusions
	assumptions used to prepare accounting estimates compared to the prior year.	**Related Parties** Our critical assessment of the council's arrangements for identifying and disclosing related party transactions found arrangements in place were satisfactory. **Methodology and Assumptions** For significant estimates we assessed the estimation methodology and challenged management on the reasonableness assumptions used. No issues were identified from this work. **Conclusion:** Our testing did not identify any evidence of management manipulating accounting records or overriding controls.

Source: Audit Scotland

35. Throughout the audit we continued to assess the potential risk of material misstatement throughout our audit. We identified a further significant risk around the valuation of property, plant and equipment resulting in a revised audit approach prior to the financial statements audit. We considered the movements in market and construction price indices and the impact this could have on those assets valued at depreciated replacement cost that had not been subject to the revaluation exercise in year. On this basis we re-assessed the risk of material misstatement on the valuation and measurement of buildings not revalued in year to be a significant risk of material misstatement. In Exhibit 4 below we have outlined the planned audit procedures and the outcome of these.

Exhibit 4
Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
2. Risk of material misstatement in the valuation and measurement	• Made inquiries of management around how they are satisfied that	**Results & Significant Judgements:**

Audit risk	Assurance procedure	Results and conclusions
of assets valued at depreciated replacement cost not revalued in year. Market and construction price indices have been rising due to current market conditions including rising inflation. The carrying value of assets valued at depreciated replacement cost which have not been revalued in year could be materially misstated.	assets not subject to revaluation in year are free from material misstatement. • Reviewed management / valuer's assessment of assets not subject to revaluation to determine if this is consistent with auditor knowledge or other similar property valuation movements. • Considered the sufficiency of management's assessment of assets not subject to revaluation in year and the extent to which this has considered independent valuation advice and market movements.	As outlined in Exhibit 2, we found the carrying value of property, plant and equipment not subject to revaluation in year included a number of significant differences between the current value and carrying value of individual assets, although only resulting in a net movement of £1 million. The audited financial statements and disclosure notes have been updated to reflect downward asset revaluations of £88 million along with upward revaluations of £80 million. **Conclusion:** Following amendments to the financial statements to reflect individually significant movements in asset valuations, we are satisfied that property, plant and equipment has been valued in accordance with the code and is free from material misstatement.

Other areas of audit focus

36. We identified three other areas in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our planning assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- **Valuation of Land & Buildings:** Land and buildings are revalued on a five-year rolling basis. The council held land and buildings with a Net Book Value of £2,243 million as at 31 March 2021. This is an area of audit focus due to the substantial degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. In addition, the council requires to satisfy itself that the carrying amounts of those assets not revalued at 31 March 2022 are not materially different to their current value. As outlined in paragraph 34. , during the audit we re-assessed this to be a significant risk of material misstatement.

- **Valuation of Pension Liability:** The council is an admitted body of Strathclyde Pension Fund and recognised a net pension liability of £1,147million as at 31 March 2021. The liability requires the use of an actuarial methodology using a number of assumptions including financial and demographic assumptions. These assumptions should reflect the profile of the council's employees and be based on appropriate data. This is an area of audit focus because the methodology applied could have a material impact on the net pension liability accounted for in the financial statements. The basis of the assumptions should also be derived on a consistent basis year to year.

- **City Parking:** From 1 August 2021 the activities, assets and liabilities of City Parking (Glasgow) LLP transferred to the council and have been managed by Neighbourhoods, Regeneration and Sustainability Service. There is a risk that these changes to the council's group structure are not properly accounted for within the single entity.

37. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention, other than those noted at Exhibit 2 regarding land and buildings valuations.

Group consideration

38. As part of our assessment of audit risks in relation to the group financial statements we identified areas where we considered there are risks of material misstatement. We did not consider these to represent significant risks. The areas of specific audit focus in relation to the group financial statements are:

- **SEC Land and Buildings:** The value of land and buildings incorporated into the group from Scottish Events Campus Limited is likely to be above group materiality. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. There is a risk arising to valuation estimates in the group accounts from the use of assumptions in the valuations.

- **City Property Investments:** The value of property investments incorporated into the group from City Property Glasgow (Investments) is likely to be above group materiality. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. There is a risk arising to valuation estimates in the group accounts from the use of assumptions in the valuations.

- **Component Pension Liabilities:** The value of the individual net pension liabilities incorporated into the group from Glasgow Life and City Building (Contracts) are likely to be above group materiality. The actuarial valuation methodology for these liabilities uses a range of financial and demographic assumptions. There is a risk that the assumptions and methodology used in the valuation of pension obligations are not reasonable impacting on the net pension liability in the group financial statements.

39. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Statutory override adopted for the disclosure of infrastructure assets

40. Across the UK, a technical accounting issue has been identified covering infrastructure assets, which we have considered as part of our audit this year.

41. Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at historical cost in the accounts (£780.645 million). A replaced component of an asset has to be de-recognised and at some councils the records of additions were not detailed enough to comply with Accounting Code requirements. A failure to de-recognise assets correctly would have resulted in double-counting and an overstatement of the gross book value; accumulated depreciation; and potentially the net book value of the assets.

42. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

43. Management considered the detailed records available to support infrastructure additions since 2010 and concluded that the above statutory overrides were required and have amended the infrastructure disclosures in the audited accounts. This is explained at Note 19 to the annual accounts.

The net impact of identified misstatements adjusted in the accounts is £238 million

44. The following misstatements were identified and adjusted in the annual accounts:

- **Land and buildings valuations:** As noted in Exhibit 2, the council's valuers undertook a revaluation of assets. The incorporation of changes to revaluations resulted in an increase in net expenditure in the Comprehensive Income and Expenditure Statement (CIES) of £8 million and a corresponding decrease in net assets in the balance sheet.

- **Provision for equal pay:** As noted in Exhibit 2, the council updated the accounts to recognise a provision for the estimate of the full equal pay obligation. This resulted in an increase in net expenditure in the CIES of £230.3 million and a corresponding decrease in net assets in the balance sheet.

- **Health and social care transactions:** £218.565 million added to both expenditure and income for the year in the CIES to ensure correct accounting treatment of IJB income and expenditure. There was no net impact on the accounts.

- **Health and social care transactions – prior year adjustment:** The required adjustment noted above also required a restatement of prior year income and expenditure. Similar adjustments of £77.221 million were made in the Comprehensive Income and Expenditure Statement.

- **Cash balances:** As a result of miscodings identified in the year-end bank reconciliation, both the cash and short-term creditor balances in the balance sheet required to be reduced by £27.476 million. There was no impact on the net assets position.

- **Non-current assets:** Intangible assets were overstated by £5.796 million due to the misallocation of expenditure on computer equipment and to a posting error related to leased assets. Plant and equipment balances were understated by £5.110 million, and land and buildings balances were understated by £0.686 million. These errors have been corrected.

45. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. Consequently, we considered that we did not require to amend our audit approach.

46. The net impact arising from the total adjustments made in the audited annual accounts was to increase net expenditure in the Comprehensive Income and Expenditure Statement by £238.379 million and decrease net assets in the Balance Sheet by £238.379 million.

47. The above adjustments were also taken through the group accounts. In addition, the following adjustments were made which were specific to the group:

- **Reclassification of component pension reserves:** £96.210 million of component pension reserves were reclassified from unusable to usable reserves in 2021/22. The same reclassification adjustment was made to the prior year balance, which amounted to £90.041 million. This adjustment had no net impact on the net assets of the group.

- **Final consolidation adjustments:** The unaudited group accounts were prepared using components' unaudited accounts. Where audited accounts were subsequently received by the council, these resulted in a number of minor consolidation adjustments. These adjustments are part of the normal finalisation process of the group accounts. The net impact of these adjustments was to decrease net expenditure in the group Comprehensive Income and Expenditure Statement by £0.156 million and increase net assets in the group Balance Sheet by £0.156 million.

48. Taking into account these adjustments and those noted at paragraph 44, the overall impact on the group financial statements was an increase in net expenditure of £238.223 million and a corresponding decrease in net assets.

49. Due to the time available, a number of adjustments in relation to the value of land and buildings have not been corrected in the accounts. These adjustments would have reduced net expenditure by £9.610 million, and management have advised that the relevant adjustments will be made during 2022/23 (Appendix 2).

Other audit findings

50. As part of our work on cash and cash equivalents we checked bank balances to bank letters provided by the council's banks. The bank letter from the Royal Bank of Scotland included over two hundred accounts held by the council that are not included in the financial statements. The total balance held in these accounts is not material with many having a zero or extremely low balance. It is possible that many of these accounts are inactive. Officers advised that these are mainly social work client and education school accounts managed and controlled by council officers. Such accounts present a risk of fraud to the council.

Recommendation 2

The council should take steps to mitigate the risk of fraud arising from inactive bank accounts held in the council's name.

Follow-up of prior year recommendations

51. We have followed up the two actions raised in our 2020/21 annual audit report, and our assessment of progress with implementation is set out in Appendix 1.

2. Financial management

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

Main judgements

The council has appropriate and effective financial management arrangements in place. In 2021/22, services recorded a small overspend of £1.8 million (0.1%) against budget.

The Covid-19 pandemic continued to have a significant impact on the council and its operations in 2021/22.

The council has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities.

Services recorded a small overspend of £1.8 million against budget

52. The council approved its 2021/22 net service revenue budget in March 2021. The budget was set at £1,684 million with a spending gap of £7.9 million. To address the spending gap, the council incorporated a range of savings options already approved or approved under delegated authority.

53. The council has a strong track record of consistently delivering services within budget. In June 2022, in its 2021/22 outturn report to the CAC, the council was forecasting an overspend of £1.8 million (0.1%) against the revised budget. The council's spending has remained in line with its overall budget, with services spending between 99.9% and 101.2% of their final budget.

Strong financial monitoring arrangements are in place

54. In line with good practice, the council's budget and financial plans are aligned to its strategic priorities and financial management arrangements include financial forecasting. The council's budget setting and monitoring arrangements remain appropriate.

55. The Finance and Audit Scrutiny Committee (FASC) carries out detailed scrutiny of financial performance mainly through bi-monthly revenue reports, quarterly capital monitoring reports and the annual outturn report. These reports provide a clear picture of financial performance at service level, include the forecast year-end outturn position and comprehensive explanations for any significant budget variances.

56. Senior management and members receive regular and accurate financial information on the council's performance against budgets which enables them to carry out effective scrutiny of the council's finances.

The Covid-19 pandemic had a significant impact on the 2021/22 financial year

57. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

58. The Covid-19 pandemic continued to have a significant impact on the council and its operations in 2021/22. The council's response was to sustain existing service provision as far as possible, particularly for the most vulnerable people in the community. The restrictions in place during the pandemic resulted in the closure of council facilities for long periods, a redesign of existing services and the introduction of new services and working arrangements, including remote and hybrid working.

59. The council's general fund includes £39.7 million of earmarked reserves to offset the impact of Covid-19, particularly in relation to additional costs incurred due to the pandemic and lost income across the council. During 2021/22, the Scottish Government contributed a further £29 million to support Covid-19 pressures and the council incurred additional expenditure and lost income amounting to £36.5 million. This results in an excess of funding in 2021/22 of £32.2 million, which will be carried forward into 2022/23 and future years to meet the ongoing financial impact of Covid-19.

60. In addition, the council acted as agent on behalf of the Scottish Government by administering the distribution of £120 million of Covid-19 funding, mainly relating to support grants to local businesses.

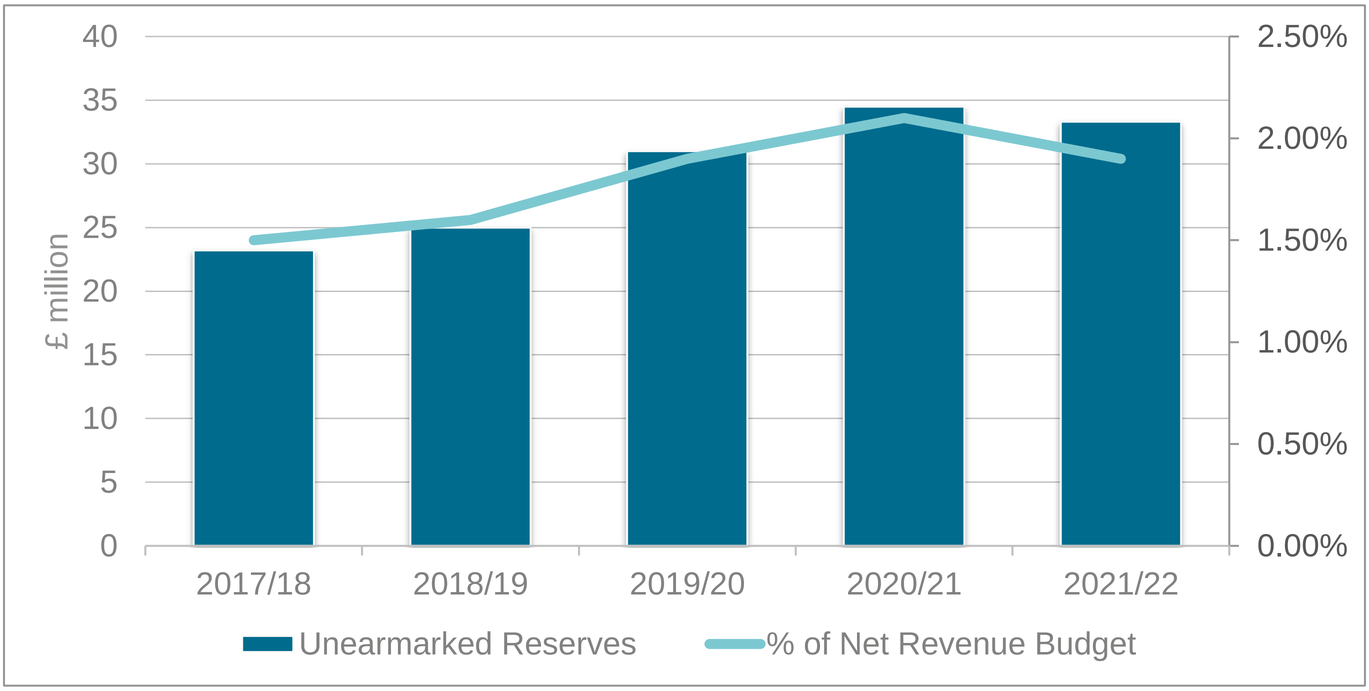
There has been a decrease in the level of General Fund reserves

61. One of the key measures of the financial health of a body is the level of reserves held. The level of general fund reserves held by the council decreased by £14.4 million from £240.1 million in 2020/21 to £225.7 million in 2021/22.

62. The balance of general fund reserves is split between unearmarked reserves of £33.3 million (2020/21: £34.5 million) and earmarked reserves of £192.4 million (2020/21: £205.6 million). Earmarked reserves consist primarily of service expenditure commitments in future years of £121.8 million (2020/21: £135.0 million), of which £44.1 million relates to Covid-19 (2020/21: £89.3 million) and amounts earmarked towards the council's equal pay obligations of £69.9 million. The movements in earmarked reserves reflect the drawdown of previous carry forwards offset by new carry forwards generated at year end.

63. The balance of unearmarked reserves represents 1.9% of the net budgeted expenditure. The council's policy remains to target unearmarked balances at 2% of the net budgeted expenditure over the medium term. Exhibit 5 provides an analysis of the level of unearmarked general fund reserves over the last five years. The council's reserves policy demonstrates a sustainable approach to managing its unearmarked reserves.

Exhibit 5
Analysis of general fund unearmarked reserves



Source: Glasgow City Council Financial Statements

Planned efficiency savings were delayed

64. The 2021/22 budget included planned savings amounting to £20.2 million to address the budgeted funding gap.

65. The council achieved actual savings of £17 million (84% of total budgeted savings). Unachieved savings mainly related to the Neighbourhoods, Regeneration and Sustainability service. The service did not fully realise expected income in respect of restricted parking zones and recovery rates for bulky waste charges, and has seen a temporary suspension of service due to high absence levels.

Covid-19 and disruption to global supply chains have significantly delayed the delivery of the capital investment programme

66. Total capital expenditure in 2021/22 was £145 million (£140.9 in 2020/21). In its 2021/22 Capital Investment Programme – Annual Performance Report, the council reported the status of current capital projects as at 31 March 2022:

- 18 were on programme, and/or on budget/expenditure profile, and/or meeting specification (green)
- 16 were behind programme, and/or over budget, behind expenditure profile, and/or not meeting specification but a with a recovery plan (amber)
- six were behind programme, and/or over budget, behind expenditure profile, and/or not meeting specification with no recovery plan (red)
- seven were complete/operational pending settlement of final accounts or residual matters (purple)
- the number of projects that remained continuously and exclusively at green status in the year had increased to 36% in 2021/22 compared to 32% in 2020/21.

67. While there are signs of recovery, programme performance has not yet recovered to pre-Covid-19 levels. The pandemic, along with a “second wave” of disruption to global supply chains caused by Brexit, the war in Ukraine, and the 2021 Suez Canal obstruction, have had a significant impact on the delivery of the programme. Soaring energy costs have also started to affect the cost and availability of building materials. These issues have led to additional pressures in terms of completion dates and outturn costs and are forecast to continue to impact projects over at least the next three years.

68. The council recognises the increased uncertainty around the delivery of the investment programme in the current environment and will continue to monitor progress through the Capital Programme Board. The council’s programme management and governance arrangements will be key in managing the risk that delays in the completion of major capital projects could impact on costs and future service delivery.

Financial systems of internal control operated effectively

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

70. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the council’s ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

71. Each year we review the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We considered the findings of internal audit across a range of financial statements and wider dimensions areas. In relation to key controls, we have taken assurance from the work of internal audit around payroll verification.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

72. The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

73. The risk profile of public bodies during 2021/22 has been significantly affected by the Covid 19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by the council to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

74. In addition, we have reviewed the arrangements in place to maintain standards of conduct including the Councillor's Code of Conduct and the Employee Code of Conduct. We concluded that there are established procedures for preventing and detecting any breaches of these standards, including any instances of corruption.

3. Financial sustainability

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

Main judgements

The council continues to face significant challenges and uncertainty in maintaining a sustainable financial position over the medium to long term whilst delivering its strategic objectives. It is important that the council continually reviews and updates its longer-term financial plans as soon as there is more clarity around the financial impact of these uncertainties.

Equal pay

75. In 2019, the council made a settlement payment of circa £500 million in relation to historic equal pay claims, mainly with funds raised through a sale and leaseback of council properties. The settlement concluded settlements of an excess of 15,000 claimants. The settlement concluded in 2019 did not fully extinguish the council's equal pay liability and was confined to eligible claims lodged on or before an agreed cut-off date. The council has been in negotiations with the main claimant group representatives on the settlement of residual equal pay liability in relation to new claims up to 31 March 2018, including in respect of ALEOs, and from 1 April 2018 onwards in relation to accruing liability which will cease upon the implementation of the new pay and grading structure. In addition, there have been negotiations with representatives of other smaller groups.

76. The draft accounts included provision of circa £30 million in respect of the main claimant group, in relation to new claims, including those from certain ALEOs, to be settled up to the period 31 March 2018. However, the council recognised a contingent liability for the claimants whose obligations accrued from 1 April 2018 onwards.

77. The council have recognised that progress in establishing the council's affordable equal pay offer and the negotiations with the main claimant group representatives in reaching an agreement on equal pay settlements, the liability can now be reliably estimated and therefore has been provided for in the financial statements. This has been reflected in the updated accounts as a liability of £260 million, a £230 million increase from the draft unaudited accounts. The council has been in discussion with Scottish Government around the accounting treatment for recognising the equal pay provision within the accounts. Scottish Government issued a Local Government finance circular 2/2023 - accounting guidance: accounting for equal pay (www.gov.scot) which allows the council to defer the charge of the equal pay provision in the 2021/22 financial statements. The deferred charge will be removed when the equal pay payments are made, or the provision is reduced.

Funding of equal pay costs

78. In order to fund the equal pay provision, the council has sought opportunities to generate capital receipts similar to those arrangements used to fund the previous equal pay settlement. From the existing list of funders identified in 2019 to facilitate the sale and leaseback arrangement, a preferred funder was identified to provide additional funding. A new LLP (City Property Glasgow (Operations SL3) LLP) (99.999% Council owned / 0.001% City Property (Glasgow) LLP owned) has been established. The council has identified further assets in which to enter into sale and leaseback arrangements, aimed and raising sufficient funds to support settlement. In doing so, the council has recognised that this effectively restricts the council's capacity to generate capital receipts through sale of the premises over the medium term.

79. The total funding raised is £210 million which will fund the settlement payments with the residual costs being funded through the council's existing resources. The council has also obtained confirmation from the Scottish Ministers that the funds raised through the sale and leaseback arrangement can deviate from the requirements of the Code, and can be applied to support the funding of equal pay costs in future years.

Settlement of equal pay claims and implementing an equal pay and grading system

80. The council is working with claimant representatives to agree individual settlements. It is expected these will be settled from June 2023 onwards.

81. Through the implementation of an Equal Pay compliant Pay and Grading Scheme (PGS), based on the output of the current Job Evaluation exercise, that Equal Pay liability comes to a final conclusion. The council is implementing the SJC Job Evaluation Scheme 3rd Edition in line with many other Scottish local authorities.

82. A PGS Project has been formed, comprising of HR, Legal, Finance, and Technical Workstreams, with the participation of trade unions. To date, trade union engagement has focused on the principles that should underpin the new scheme. A joint workshop has also been held to assist officers and trade union colleagues on the technical aspects of pay modelling. This was delivered by the council's independent Scottish Joint Council (SJC) Job Evaluation expert.

83. The implementation of the new PGS is a highly complex piece of work with a range of inter-dependencies, including the timely results of job evaluation, PGS design, financial modelling, and significant payroll development.

84. While the process was delayed as a result of Covid-19, officers are confident that the new pay and grading system will be effective from October 2023, and the council will continue to work towards the implementation of a new payroll system.

We have obtained audit assurances over the wider audit dimension risks relating to financial sustainability identified in our 2021/22 Annual Audit Plan

85. Exhibit 6 sets out the wider audit dimension risks relating to financial sustainability which we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 6
Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
Financial sustainability The council faces significant financial challenges, including: • a spending gap of £112.5 million over the next three years • increased costs and reduced income due to the impact of Covid-19 • local government funding settlements that are likely to remain challenging • ongoing rising demands for services • increasing costs across services • implementation of a new pay and grading system. To meet these challenges and deliver its strategic objectives it is important that the council has strong longer-term financial plans.	• Assessed the adequacy of the council's longer-term financial plans. • Assessed the council's financial position based on our review of the council's financial performance and budget reports. • Assessed any council plans to use the Scottish Government's relaxation of financial regulations due to the Covid-19 pandemic. • Assessed the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee. • Reviewed and assessed provisions and contingent liability disclosures as part of our financial statements audit.	The council demonstrates a clear focus on short- to medium-term financial management. The current longer-term financial framework covers up to the financial year 2022/23 but has not yet been updated for 2023/24 to 2027/28 due to current challenges and uncertainties facing the council. The council should look to update its five-year financial framework as soon as possible, to ensure this supports the management and delivery of its strategic objectives. (Refer Appendix 1, action plan point 2)

The financial impact of the Covid-19 pandemic on the council will be significant

86. The financial impact of the pandemic on the council is likely to extend across several years and could include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges from, for example, leisure, public transport and parking. The council may also face increased costs such as higher staff costs to cover the delivery of services.

87. The 2022-23 budget was approved by the full council on 17 February 2022, with detailed service estimates approved by the CAC on 7 April 2022. To address the identified spending gap of £19.7 million, the budget included a savings target of £16.1 million.

88. The budget assumes that financial pressures arising from the impact of Covid-19 will be met, in full, from additional Scottish Government funding and the application of fiscal flexibilities. As such, no specific adjustment has been made in the financial forecast for Covid-19.

89. To identify the financial implications of Covid-19, the council's financial monitoring arrangements include an assessment of direct costs, other cost implications, reductions in income generation and areas of reduced spend. The costs of Covid-19 are included in the regular budget monitoring reports. Service budgets are adjusted for Covid-19 to help identify variances arising from "business as usual" activities.

90. The latest 2022/23 budget monitoring report (period 10) shows that income and expenditure budgets have been adjusted across services to reflect the cumulative net impact of £6 million in respect of Covid-19. The council has forecast that, excluding the impact of Covid-19, the outturn position is expected to be £9.9 million over budget.

Medium- and longer-term financial plans are in place but will have to be updated

91. The council's financial management arrangements include a five-year financial framework and a more detailed three-year financial forecast. In line with best practice the medium to longer-term financial plans include an element of scenario planning. The council also has longer-term financial strategies in place which are linked to its strategic objectives. For example, the council's ten-year property and land strategy.

92. The council's current five-year financial framework covers the period 2018-23. Due to the number of financial uncertainties currently impacting the council, it has taken the decision to focus on its medium-term financial planning via its three-year financial forecasts, rather than preparing an updated five-year financial framework. As noted, these forecasts are initially prepared covering a three-year period, and are followed by more focused forecasts for each of the three years which provide updates on previously uncertain factors.

93. The council's updated three-year financial forecast (2023-26) was presented to the CAC in November 2022 and projected a total spending gap of £196.2m for the period 2023 to 2026. An updated financial forecast which focused on the financial year 2023/24 was presented to the CAC in January 2023, which reduced the initially forecast spending gap in 2023/24 by £51.1m, resulting in a revised total spending gap of £145.1m for the period 2023 to 2026. Updated forecasts focusing on 2024/25 and 2025/26 are expected to be reported to committee in 2023.

94. The forecast includes the financial implications of the settlement of equal pay liability from 1 April 2018 until the new pay and grading scheme is in place. However, the financial implications of the new pay and grading scheme were not able to be assessed at the time of the report. It is noted that this will continue to be monitored and reported accordingly. The forecast also included financial implications of Covid-19, to the extent that it has been assumed that any residual financial pressures would be met from carried forward balances in 2023/24 (estimated at a value of £12.9m). Costs beyond 2023/24 would be required to be met from approved budgets.

95. Aside from the impact of Covid-19 and in the underlying “business as usual” environment, the council continues to face many challenges in maintaining a sustainable financial position over the medium to long term whilst delivering its strategic objectives. The forecast has been based on the best understanding of the council's current financial position and the use of judgement in relation to variable factors. Key risks to the forecast include financial settlement; inflation; probable outturn; equal pay; the proposed pay and grading scheme; and Covid-19. These risks will place additional financial pressure on the council over the medium to longer term.

96. It is important that the council continually reviews and updates its financial plans as soon as there is more clarity around the financial impact of the aforementioned risks. While it is understandable that the council would focus on medium-term financial forecasts given the current challenges and uncertainties, it is also important that the council looks to update its longer-term financial framework as soon as possible, to ensure this supports the management and delivery of its strategic objectives.

Recommendation 3

The council should look to update its five-year financial framework as soon as possible, to ensure this supports the management and delivery of its strategic objectives.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Overall, the council's governance arrangements operated effectively throughout the year. However, the council has identified areas for improvement in relation to its ICT arrangements and governance arrangements over joint ventures and systems of internal control.

The council demonstrates its commitment to conducting its business in an open and transparent way through the recording of committee meetings and availability of information through the council website.

Governance arrangements were appropriate

97. During 2021/22, we reviewed the council's governance arrangements including committees, schemes of delegation standing orders, statutory officer roles, financial scrutiny, and internal audit. Our overall conclusion is that committee papers are of a good standard and that members provide effective scrutiny and challenge. The council's two scrutiny committees conduct an annual self-assessment which is used to further enhance and develop their effectiveness and role.

98. In 2018, a short life working group was established to oversee the implementation of the action plan arising from an external review of the council's committee structure and remits. The work of the group has now concluded, and the key recommendations from the review have been implemented.

New administration

99. In May 2022, the Scottish Local Authority elections were held. Eighty-five councillors were elected, and a new minority administration was formed by the Scottish National Party (SNP).

100. Following the elections in May an induction programme for newly elected members was established. The new administration and committee membership is still evolving and it is too early to comment on the effectiveness of arrangements.

Openness and transparency

101. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates are key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant, and timely information about how the body is making decisions and using resources.

102. There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, city administration and scrutiny committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

103. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations, and surveys and how to make a complaint.

104. Overall, we concluded that the council has demonstrated a commitment to openness and transparency.

Transparent reporting of financial performance

105. Management commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

106. The financial review within the management commentary clearly explains how the council has performed against its revenue budget, showing the outturn against budget position for the year with reasons given for variances. In addition, there is a reconciliation between the year-end net income position and the movement in reserves held.

ICT arrangements

107. During 2021/22 one unsatisfactory audit report was issued by internal audit relating to the council's current ICT arrangements. A detailed report was presented to the FASC on 26 January 2022, outlining concerns relating to ICT security and ICT contract management arrangements. Linked to these concerns there remains an ongoing disconnect between the council's Business Continuity Plan assumptions for ICT recovery times, and the provisions for Disaster Recovery plans. Whilst it is recognised that the inherent resilience of the corporate network and key applications has been enhanced in recent years, gaps continue to be identified between BC plan requirements and application-level disaster recovery plans provided by the council's ICT provider with inadequate formal disaster recovery plan testing taking place.

108. The council continues to look to enhance its governance arrangements over ICT, particularly around ICT contract management for services provided by third parties. While ICT security arrangements remain a recognised risk, the council receives regular assurances that there have been no security breaches impacting services.

109. The council recognise that efficient, effective and secure ICT arrangements are pivotal to service delivery as well as future transformation of council services. A detailed action plan has been agreed with management and these actions will monitored by Internal Audit and progress reported to the FASC 2022/23.

Group governance arrangements and systems of internal control

110. Following allegations raised through whistleblowing, internal audit undertook an investigation at City Building (Glasgow) LLP, a joint venture between the council and Wheatley Housing Group. The internal audit investigation has identified significant compliance matters covering governance and HR practices at City Building (Glasgow) LLP.

111. In response to the investigation findings, a City Building Glasgow Partnership Oversight Board has been established jointly by the council and the Wheatley Group. The workstreams of the review include governance, procurement, HR and finance. The Group is expected to report back early in 2023/24 and the matter has been highlighted in the council's annual governance statement and we are satisfied that the issues do not have a material impact on the council or group financial results or position.

112. These issues have been reflected in the overall internal audit opinion for the year, which concludes that "limited assurance can be placed upon the adequacy and effectiveness of the systems of governance and internal control that operate in Glasgow City Council and its subsidiaries and relevant associates." Internal audit specifically highlight those improvements are required around the council's Information and Communications Technology arrangements.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The council has an appropriate and effective best value framework in place, including arrangements for following the public pound.

Specific agreed actions in response to our 2018 Best Value Assurance Report were completed by March 2020, and ongoing wider work will continue with progress reported within existing governance structures.

Performance management arrangements provide a sound base for improvement.

The council is making good progress in securing best value

113. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period. The BVAR report for the Glasgow City Council was published in August 2018.

114. Our BVAR made seven recommendations across a range of areas including performance management, homelessness, equal pay and partnership working. The council established an action plan to address our BVAR recommendations and in March 2020 reported the specific agreed actions as complete, and that ongoing wider work would continue with progress reported within existing governance structures.

Arrangements are in place for following the public pound

115. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound. The council uses ALEOs to provide many of the council's services. It is therefore essential that the council operates effective governance and performance management arrangements over its ALEOs.

116. The council closely monitors ALEO budgets and performance through its financial governance and performance management arrangements. Any risks around ALEOs' failure to deliver services or return planned surpluses are managed through the council's risk management arrangements and financial reporting frameworks.

117. The council continuously reviews its service/ALEO model (Council Family) to ensure it remains fit for purpose and delivers best value and takes account of new and emerging issues. The results of its most recent review were reported to the CAC on 26 January 2023 where the council approved the recommendation that Glasgow Life continues delivering all culture and leisure services subject to reviewing and amending the legal and ALEO governance framework to update and take account of changes since Glasgow Life was established.

118. The council's Renewal Programme Strategy and Governance Framework was implemented in July 2020 to address the strategic impact of Covid-19. The strategy was overseen by the Renewal Programme Board, chaired by the Executive Director of Finance. Through the framework, the council established a number of renewal workstreams and agreed a process for effectively engaging with council services and ALEOs. The framework was reviewed in 2022 and it was agreed as part of the 2021/22 Summary Annual Performance Report that the renewal objectives would be mainstreamed by incorporating them as "business as usual" in the new Strategic Plan.

119. The council has appropriate arrangements for ensuring monitoring of the performance of its ALEOs and ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management arrangements provide a sound base for improvement

120. The council's performance management arrangements were also considered in our BVAR issued in August 2018. We identified that the council has well-developed public performance reporting arrangements and continues to refine them, particularly around measuring progress against strategic objectives. In our follow-up of our BVAR recommendations we noted the council's progress in making improvements for measuring longer-term outcomes.

121. In August 2021, internal audit submitted a report to FASC on a review of performance management arrangements across the council. The review found that a reasonable level of assurance can be placed on the control environment. The audit identified scope for improvement and made ten recommendations for management to address. At December 2022, seven of these recommendations are still being progressed. However, new timescales have been agreed with internal audit for their completion.

122. The latest Summary Annual Performance Report was approved by the CAC on 3 November 2022. Overall performance in 2021/22 was satisfactory, but the report highlights challenges around the ongoing recovery from Covid-19; the cost-of-living crisis; the impact of Brexit; and the war in Ukraine. The annual performance reports are available to the public on the council's website.

123. The council approved its Strategic Plan for the period 2022-27. This was approved in October 2022, and therefore an annual progress report has not yet been published.

124. Overall, we considered the council's performance management arrangements to be adequate.

Statutory performance indicators (SPIs) are being monitored

125. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their best value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

126. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of best value, and how it plans to improve these assessments, and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

127. We have evaluated council's arrangements for fulfilling the above requirements and concluded that these arrangements are satisfactory.

Performance overview

128. The council participates in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

129. Relevant LGBF data is reviewed and verified by internal audit prior to being submitted to the Improvement Service. Their review of the 2021/22 data identified a small number of data integrity issues which have been highlighted to the Improvement Service. The 2021/22 data will be reported to the Operational Performance and Delivery Scrutiny Committee (OPDSC) and published in 2023.

130. The annual update on performance within the LGBF was presented to OPDSC on 21 September 2022. This provided a full assessment of all 101 indicators in the LGBF for 2020/21, highlighting those indicators in the top and bottom quartile, and providing trend data and ranked positions over a three-year period. It also shows the family group range for all indicators.

131. Strong performance has been reported in a number of areas including:

- proportion of people earning less than the Living Wage, with the council having the lowest percentage nationally
- self-directed spend as a percentage of total social work expenditure, with the council spending the second highest percentage both nationally and within the family group

- for councils grouped together by population density, the council is ranked second for the lowest percentage of carbon emission levels.

132. Areas where the council ranked poorly in comparison to other local authorities included:

- net cost of street cleaning per 1,000 population, with the council having the highest costs nationally
- cost per pre-school education registration per child, with the council having the second highest costs nationally
- costs per attendance at culture and leisure facilities, with the council having the highest cost nationally.

133. From reviewing the council's LGBF performance for 2020/21, it can be noted that there are some changes in performance year-on-year which have been impacted by the Covid-19 pandemic. The council have also noted a few issues with underlying data for some measures, and these have been detailed in their annual LGBF report presented to OPDSC.

National performance audit reports

134. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in Appendix 3.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Land and buildings valuations The Code of Practice on Local Authority Accounting requires authorities to revalue property, plant and equipment with sufficient regularity to ensure the carrying amount does not differ materially from current value, being the value that would have been obtained if revalued. Property, plant and equipment valuations within the annual accounts are supported by workings from the valuers (City Property) using a rolling programme of revaluations. City Property also monitor the asset portfolio to identify asset impairments during the year and reflect these in the annual revaluation. The valuation process could be improved through enhanced documentation of the annual valuation report and management scrutiny over the report including: • the assets revalued in year and the methodology applied in the valuation exercise	We recommend that the valuation process could be enhanced through establishing a matrix process to valuations to better inform Management around the potential requirement for additional valuations in a particular year around the remaining class of assets not subject to revaluation. In addition, the annual valuation summary certificate prepared by City Property should provide enhanced details of the methodology applied in completing the revaluation programme, including the process and outcome of procedures for identifying impairments and other significant movements during the year. There should be clear evidence of how management have challenged and scrutinised the valuation to ensure the accounts are free from material misstatement. Exhibit 2, finding 1	The council is engaged in round table discussions to enhance and develop the approach to valuations nationally and will investigate this proposal as part of those wider discussions. The council will engage with City Property to enhance and clarify existing disclosures. The council will continue to work with City Property at year end to confirm the appropriateness of valuations. **Responsible officer** Executive Director of Finance **Agreed date** Valuation Matrix – Over the medium term Others – March 2023

Issue/risk	Recommendation	Agreed management action/timing
• key assumptions and estimates made in the valuation • the total valuation amount reflected within the annual accounts. In addition, there should be clear assurances around how those assets not subject to revaluation would not be materially understated. **Risk:** There is a risk that the documentation to support the valuation exercise lacks detail and results in additional audit work being required to ensure the appropriate assurances are obtained to support the valuations within the annual accounts.		
2. Client bank accounts There are over two hundred bank accounts in the council's name that relate to client accounts. A number of these accounts appear to be inactive. **Risk:** There is an inherent risk of fraud in relation to inactive bank accounts in the council's name.	The council should take steps to mitigate the risk of fraud arising from inactive bank accounts held in the council's name. Paragraph 44.	The council will engage with its banker to streamline accounts where possible and clarify naming conventions. **Responsible officer** Executive Director of Finance **Agreed date** March 2024
3. Five-year financial framework Significant longer-term financial challenges include the impact of the equal pay settlement and the implementation of the new pay and grading structure planned for 2024. The council has yet to update its five-year financial framework for the period 2024-28.	The council should update is five-year financial framework to address the significant financial challenges it faces. Exhibit 2, finding 2 Paragraph 78. Paragraph 92.	The council will consider developing a longer-term financial strategy framework once there is greater certainty over the current financial challenges. **Responsible officer** Executive Director of Finance **Agreed date** March 2024

Issue/risk	Recommendation	Agreed management action/timing
Risk: Without a longer-term financial plan, the council will be unable to deliver on its new strategic objectives.		

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
4. Valuation of Land & Buildings Land and buildings are revalued over a five-year rolling programme with the assets of a different service valued each year. **Risk:** There is a risk of significant movements in value between each year's accounts.	The council should consider a valuation methodology whereby 20 per cent of each class of asset across all services is revalued each year.	**In progress** The first meeting of a wider group of interested parties did not take place until January 2023 so there has been limited opportunity to consider the implications of any proposed change. As part of the 2021-22 accounts, the council completed additional valuations to satisfy audit requirements. Further discussions and analysis are required at a national level to assess the impact of any change. **Responsible officer** Executive Director of Finance **Revised date** Over the medium term
5. Financial sustainability Medium and longer-term plans have yet to be updated to reflect the future financial impact of the Covid-19 pandemic. **Risk:** The council's medium and longer-term financial planning may not support the management and delivery of its strategic objectives.	The council should update its medium-term financial plans to reflect the most up-to-date position regarding the financial impact of Covid-19.	**Complete**

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £0.250 million and request they be corrected.

The table below summarises uncorrected misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements however we request that they be corrected.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	**Cr £000**	**Dr £000**	**Cr £000**
1. Land and buildings			9,610	
Gain on revaluation		9,610		
General fund			9,610	
Revaluation reserve / capital adjustment account				9,610
Net impact		**9,610**	**19,220**	**9,610**

Notes:
Entry 1 relates to property revaluations carried out for 2021/22, but not reflected in the 2021/22 accounts. These will be included in the 2022/23 accounts.

Disclosure adjustments

The table below sets out our proposed disclosure amendments that have not been adjusted. We are comfortable these do not have a material impact on the users of the accounts and their understanding of the council.

Disclosure	Auditor recommendation
Management commentary	While we are satisfied that the management commentary is consistent with the financial statements, we have identified some areas of improvement for future years: • Prudential indicators: inclusion of ratio of financing costs to net revenue stream. • Inclusion of more detail around areas of strategic importance, for example: a) Political donations and expenditure b) Financial instruments c) Events after 31 March 2022 d) Indication of likely future developments e) Disclosure concerning the employment of disabled persons f) Employee involvement g) Disclosures concerning greenhouse gas emissions.
Significant estimates and judgements (Note 4)	The Code requires authorities to disclose significant accounting estimates where there is a risk that the estimate could change materially over the next twelve months and quantitative and qualitative information to inform the reader of the potential impact on estimates. Currently the council discloses IAS 19 liabilities. However, there are opportunities to enhance this disclosure such as inclusion of estimates around property, plant and equipment valuations and the sensitivity to change over the next twelve months. While we are satisfied this is not a material omission, we recommend management review this disclosure for future years.

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

May

Local government in Scotland Overview 2021

June

Covid 19: Personal protective equipment

July

Community justice: Sustainable alternatives to custody

September

Covid 19: Vaccination programme

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland's economy: Supporting businesses through the Covid 19 pandemic

Glasgow City Council

2021/22 Annual Audit Report

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