

# Glasgow City Council

2019/20 Annual Audit Report



 AUDIT SCOTLAND

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

January 2021



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# Key messages

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## 2019/20 annual accounts

- 1** Glasgow City Council's (the council's) financial statements for 2019/20 give a true and fair view of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3** The impact of COVID-19 created additional challenges for both council and audit staff during the course of the audit, with key dates in the financial reporting process updated to reflect the revised statutory deadlines.

## Financial management

- 4** For 2019/20 services reported a budget overspend of £8.3 million (0.6%) against the revised budget. The council has appropriate and effective financial management arrangements in place with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.
- 5** The council has a track record of delivering significant savings in recent years. During 2019/20 the council delivered £19.3 million in savings which was 85% of its savings target of £22.6 million.
- 6** Controls relating to financial systems and procedures are designed appropriately and operating effectively.

## Financial sustainability

- 7** The COVID-19 global pandemic has had a significant impact on the short-term finances of the council and the impact of this in medium/longer term planning is still to be evaluated.
- 8** The council has a forecast spending gap of £112.5 million over the next three years. Having delivered such significant savings it will be much more challenging for the council to make similar savings in the future while maintaining the same level of service provision.

## Governance and transparency

- 9** Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.
- 10** In response to the impact of COVID-19 the council reacted quickly to establish emergency governance arrangements that were appropriate and supported good governance and accountability.

## Best Value

- 11** The council has made good progress in addressing the recommendations made in our 2017/18 Best Value Assurance Report. However, the council still faces significant challenges around meeting its statutory duties in relation to homelessness and temporary accommodation.
- 12** The council has appropriate arrangements in place for following the public pound.

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# Introduction

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1. This report summarises the findings arising from the 2019/20 audit of Glasgow City Council (the council) and its group.

2. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the 11 March 2020 meeting of the Finance and Audit Scrutiny Committee (FASC). 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](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2019/20 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.

4. Subsequent to the publication of our Annual Audit Plan, in common with all public bodies, the council has had to respond to the global COVID-19 pandemic. This impacted on the final month of the year and will continue to have significant

impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

## Adding value through the audit

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

- having regular dialogue with senior officers as the strategic and operational impact of Covid-19 developed
- sharing learning from our experiences working with other bodies and agreed a clear, planned, no surprises, approach for the remote audit of the 2019/20 accounts within a revised accounts and audit timetable
- making use of remote working to deliver the audit in line with the revised timetable agreed with officers
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

6. In doing so, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

7. 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.

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

9. 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.

10. 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
- Best Value arrangements.

11. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

12. 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.

**13.** 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**

**14.** 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 2019/20 audit fee of £643,990 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** 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](http://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.

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**Glasgow City Council's financial statements for 2019/20 give a true and fair view of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended, and were properly prepared.**

**The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.**

**The impact of COVID-19 created additional challenges for both council and audit staff during the course of the audit, with key dates in the financial reporting process updated to reflect the revised statutory deadlines.**

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual accounts are unmodified

**16.** The accounts for the council and its group for the year ended 31 March 2020 were considered at the FASC on 13 January 2021 and approved by the City Administration Committee (CAC) on 14 January 2021. As reported in the independent auditor's report;

- the financial statements give a true and fair view of the state of affairs and of the income and expenditure of the council and its group for the year to 31 March 2020, 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.

### COVID-19 delayed the audit of the annual accounts

**17.** Schedule 6 of the Coronavirus (Scotland) Act 2020 extended the administrative deadlines for local government bodies to submit accounts for audit, and also the consideration and approval of audited accounts. Our proposed timetable for the audit of the financial statements included a target date of June 2020 for submission of the accounts for audit. When it became clear that other COVID-19 related priorities meant meeting this date would be challenging, we agreed a revised target of August for the receipt of the unaudited accounts and communicated a provisional revised audit timetable in our letter dated 15 June 2020. In moving to this revised timetable, both we and council officers recognised this would be challenging and agreed that we would do our best to meet the targets but could offer no absolute guarantees. The accounts were received for audit on 19 August.

**18.** The revised audit timetable included an anticipated sign-off on the financial statements by 30 November, in line with Scottish Government guidance. However, in light of the working restrictions arising from the Covid-19 pandemic combined with the need to maintain the quality of our audit in a remote working environment, we subsequently agreed, with senior officers of the council, to take advantage of the flexibilities conferred under the Coronavirus (Scotland) Act 2020 and reprofile the timing and delivery of our audit fieldwork for completion by December 2020. The audited accounts were approved by the CAC in January 2021.

**19.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided excellent support to the audit team during the audit. We recognise that during this period officers have been working under significant additional pressures arising from COVID-19. This helped ensure that the audit of the annual accounts process ran smoothly.

### **No objections were received on the annual accounts**

**20.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the 2019/20 accounts.

### **Whole of Government Accounts**

**21.** Due to the impact of COVID-19 on the audit timetable, the 4 December deadline for submission of the audited 2019/20 whole of government accounts (WGA) was not met. The council expect to submit a consolidation pack for the WGA accounts audit during January 2021. Following completion of our audit procedures on the consolidation pack we will submit the required assurance statement to the National Audit Office (NAO).

### **Materiality has been updated from our Annual Audit Plan**

**22.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**23.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit was based on the 2018/19 cost of services. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**24.** On receipt of the unaudited annual accounts we reviewed our materiality levels and concluded that they required to be updated to reflect the decreased cost of services. The updated materiality levels are summarised in [Exhibit 2](#). The updated materiality for our audit of the financial statements had no impact on our planned audit approach.

## Exhibit 2

### Revised materiality values

Materiality level	Amount	
<b>Glasgow City Council Financial Statements</b>	<b>Planning</b>	<b>Revised</b>
Overall materiality	£29.000 million	£24.500 million
Performance materiality	£14.500 million	£12.250 million
Reporting threshold	£0.250 million	£0.245 million
<b>Group Financial Statements</b>		
Overall materiality	£30.500 million	£25.500 million
Performance materiality	£15.250 million	£12.750 million
Reporting threshold	£0.250 million	£0.250 million

Source: Audit Scotland

### The main risks of material misstatement and our audit work to address these

**25.** Our Annual Audit Plan detailed the risks of material misstatement identified for the annual accounts of the council and its group and also identified any wider dimension audit risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed.

**26.** Subsequent to our Annual Audit Plan being issued we have considered the impact of COVID-19 on the risks of material misstatement and wider dimension risks. We did not identify any significant additional risks.

**27.** The risks, the work we undertook to address them and our conclusions from this work are detailed in [Appendix 2](#). We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

### Significant findings to report on the accounts

**28.** 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 covering accounting policies, accounting estimates and financial statements disclosures, impact of uncertainties etc..

**29.** The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included. The findings include our views about significant qualitative aspects of the council's accounting practices.

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Accounting for settlement of the council's equal pay liability</b></p> <p>During 2019/20 the council settled £499.6 million of its equal pay liability.</p> <p>The funding strategy to meet this liability raised £549 million through the sale and leaseback of 11 council properties and a member contribution from an arm's length external organisation.</p> <p>There was a risk that the council did not properly account for the settlement of its equal pay liability.</p>	<p>As part of our audit work we considered how the council accounted for the settlement of its equal pay liability. This included the transactions, balances and financial disclosures relating to:</p> <ul style="list-style-type: none"> <li>• Member contribution</li> <li>• Disposal of assets</li> <li>• Sale and leaseback of 11 properties</li> <li>• Payments to claimants, representatives and third parties</li> <li>• Financial guarantees</li> <li>• Provision for unsettled claims</li> <li>• Impact on reserves.</li> </ul> <p><b>Conclusion:</b> The council has properly accounted for the settlement of its equal pay liability.</p>
<p><b>2. Pension scheme valuation – amendments arising from legal judgements</b></p> <p>The council accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19) based on valuations of pension fund assets and liabilities by the actuary.</p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case.</p> <p>On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p> <p>Following this, Hymans Robertson (actuary) contacted the council to advise them the proposed remedy indicated that the estimated liability included in the IAS19 report for 2019/20 should be reduced, as following further clarification it will impact on fewer fund members.</p>	<p>The council requested a revised valuation report from the actuary taking into account this remedy.</p> <p>The amendments resulted in a decrease of £27 million for the pension liability in the accounts.</p> <p>As this adjustment is fully mitigated by a statutory adjustment, it has no impact on the reported general fund reserve balance.</p> <p>We reviewed the adjustments and were satisfied that the updated net pension liability reflected in the audited financial statements was properly stated.</p> <p>There is no further action required by the council.</p> <p><b>Conclusion:</b> The updated net pension liability reflected in the audited financial statements was properly stated.</p>

Issue	Resolution
<p><b>3. Post balance sheet event - material uncertainty clause for the valuation of property</b></p> <p>The impact of COVID-19 meant that the valuer was faced with an unprecedented set of circumstances when making their judgements on the valuation of council assets. They considered that for certain asset types, less weight could be attached to previous market evidence for comparison purposes to inform opinions of value. Therefore, a material valuation uncertainty clause was included in their 2019/20 valuation report and this was reflected in disclosures in the unaudited financial statements.</p> <p>However, prior to certification of the financial statements, the valuer reassessed this position in light of updated guidance from the Royal Institute of Chartered Surveyors (RICS) and concluded that this clause was no longer applicable.</p>	<p>The council obtained an updated professional judgement from the valuers and inserted a post balance sheet event disclosure to recognise the removal of the material uncertainty clause by the valuers.</p> <p>We reviewed the revised valuation report and updated narrative disclosures.</p> <p><b>Conclusion:</b> The revised accounts disclosures properly reflect the change in circumstances since the balance sheet date. This change did not impact on the overall value of assets included in the accounts.</p>
<p><b>4. Reprofiting of Loan Debt</b></p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 requires local authorities to apply prudent financial management in relation to how Loans Funds are operated.</p> <p>During 2019/20 the council carried out a review of its Loans Fund debt repayment policy and methodology.</p> <p>This resulted in the council 're-baselining' its debt as at 31 March 2019 with a revised repayment period of 32 years based on the weighted average useful life of associated assets.</p>	<p>Our audit work included consideration of the council's revised approach to its Loans Fund repayment policy and methodology.</p> <p><b>Conclusion:</b> The council's revised Loans Fund repayment policy and methodology reflects prudent financial management in line with Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.</p>

Source: Audit Scotland

## A number of adjustments were made to the accounts presented for audit

**30.** As noted in Exhibit 3, a revised IAS19 report was produced by the actuary to take account of the proposed remedy to the McCloud case. This resulted in a decrease of £27 million to the pension liability in the single entity accounts and also the net expenditure in the comprehensive income and expenditure statement. However, as this movement is fully mitigated by a statutory adjustment there was no impact on the general fund reserve balance.

**31.** The unaudited group accounts were prepared using component entities' unaudited accounts. The audited accounts were subsequently received by the council and resulted in a number of consolidation adjustments, including a prior year amendment. These adjustments are part of the normal finalisation process of the accounts. The overall impact on the group financial statements was a decrease of £30.403 million in net expenditure, with the majority of this relating to the adjustment described in paragraph 30. Taking account of the prior year adjustment, total group reserves increased by £28.059 million.

**32.** All identified adjustments were reflected in the audited financial statements. We concluded that the adjustments arose as a result of events after submission of the unaudited accounts and did not indicate any systemic error.

## Other findings

**33.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

## Follow-up of prior year recommendations

**34.** We followed up the three actions raised in our 2018/19 annual audit report, and our assessment of progress with implementation is reported in [Appendix 1](#). It should be noted that financial sustainability, efficiency savings and homelessness continue to present significant challenges for the council.

# Part 2

## Financial management



### Main judgements

For 2019/20 services reported a budget overspend of £8.3 million (0.6%) against the revised budget. The council has appropriate and effective financial management arrangements in place with strong budgeting, financial monitoring and reporting processes that are aligned to its corporate priorities which enables robust financial management to be focussed on the delivery of key outcomes.

The council has a track record of delivering significant savings in recent years. During 2019/20 the council delivered £19.3 million in savings which was 85% of its savings target of £22.6 million.

Controls relating to financial systems and procedures are designed appropriately and operating effectively.

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

### The 2019/20 budget included planned savings and contributions from reserves to address the funding gap.

**35.** The council approved its 2019/20 net service revenue budget of £1,494 million in February 2019. The budget was aligned to the council's key priorities as set out in its Strategic Plan 2017-22 and included additional revenue investment of £1.3 million, along with an identified spending gap of £40.9 million.

**36.** As part of the budget process to address the revenue investment and spending gap, the council agreed a range of savings options totalling £22.6 million, a three percent increase to council tax rates to generate additional income of £6.6 million and a transfer of £13.0 million from reserves.

### The council's services did not operate within budget in 2019/20

**37.** In recent years the council has had a strong track record of delivering services within budget. In June 2020, in its 2019/20 outturn report to CAC, the council was forecasting an overspend of £8.3 million (0.6%) against the revised budget. The revised budget included an increase of £2.6 million in expenditure across services due to the impact of COVID-19.

**38.** The council's spending has remained in line with its overall budget with the overspend in services budget offset by underspends in financing costs and increased Council Tax income.

## Financial monitoring arrangements are robust

**39.** The council's budget and financial plans remain aligned to the council's strategic priorities which is consistent with good practice. Financial forecasting remains embedded within the council's financial management arrangements.

**40.** Detailed scrutiny of financial performance is delegated to the FASC which receives bi-monthly revenue reports, quarterly capital monitoring reports and the annual outturn report. From our review of these reports and attendance at committees we concluded that they provided a good overall picture of financial performance at service level. The reports forecast the year-end outturn position and include good explanations for any significant budget variances. They allow members and officers to carry out effective scrutiny of the council's finances.

## The level of General Fund reserves has increased

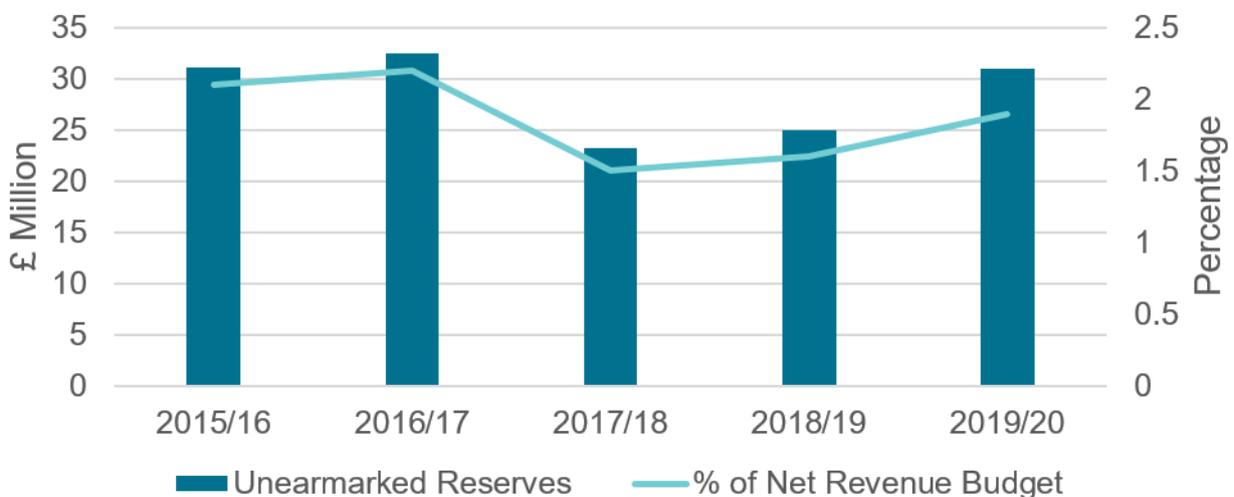
**41.** One of the key measures of the financial health of a body is the level of reserves held. The level of total General Fund reserves held by the council has increased from £71.0 million in 2018/19 to £155.4 million in 2019/20. The significant increase in the general fund reserve balance is mainly due to the funds raised from the council's funding strategy for the settlement of equal pay claims. In common with good practice and accounting requirements the council recognises a split in General Fund reserves between those that are 'earmarked' for specific purposes and those which are 'unearmarked' and available to be used to support the council's general revenue position.

**42.** The council's policy is to maintain balances of unearmarked General Fund reserves at 2% of net budgeted expenditure. The level of unearmarked reserves at 31 March 2020 was £31.0 million which is 1.9% of net budgeted expenditure (1.6% as at 31 March 2019). Current budgets include a £1 million annual contribution to the general fund unearmarked reserves balance.

**43.** [Exhibit 4](#) shows that the level of unearmarked general fund reserves has been below the council's stated target of 2% in three of the last five years. The council's reserve policy demonstrates its ongoing commitment to a prudent and sustainable approach to managing its uncommitted reserves.

### Exhibit 4

#### General fund unearmarked reserve 2015/16 to 2019/20



## Planned efficiency savings were achieved

**44.** In 2019/20, the council's original budget included planned efficiency savings of £22.6 million to address the budgeted funding gap. The council achieved actual savings of £19.3 million (85% of this total), all of which were on a recurring basis.

## The body delivered the investment programme in 2019/20

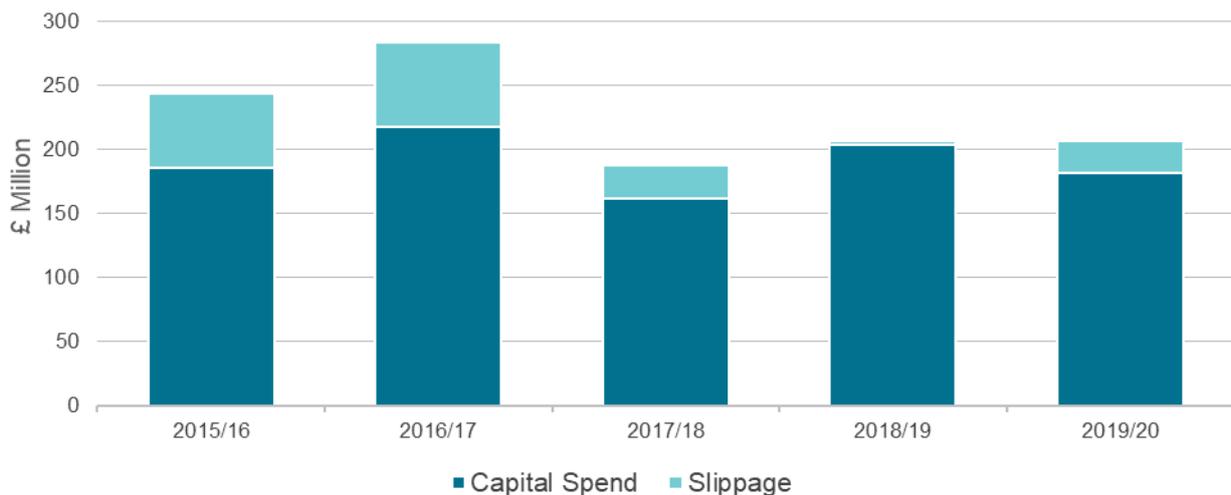
**45.** Capital expenditure in 2019/20 was £634.3 million of which £453.0 million reflects sale and leaseback transactions related to the funding strategy for settling equal pay claims.

**46.** Excluding sale and leaseback transactions, total investment programme expenditure in 2019/20 was £181.3 million, £25.4 million below planned expenditure. The council has attributed this to instances of slippage across a number of projects, rather than significant slippage on any particular project.

**47.** The council's record of capital spend in the last five years is outlined in [Exhibit 5](#).

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## Exhibit 5 Capital slippage compared to planned expenditure



Source: Glasgow City Council financial statements

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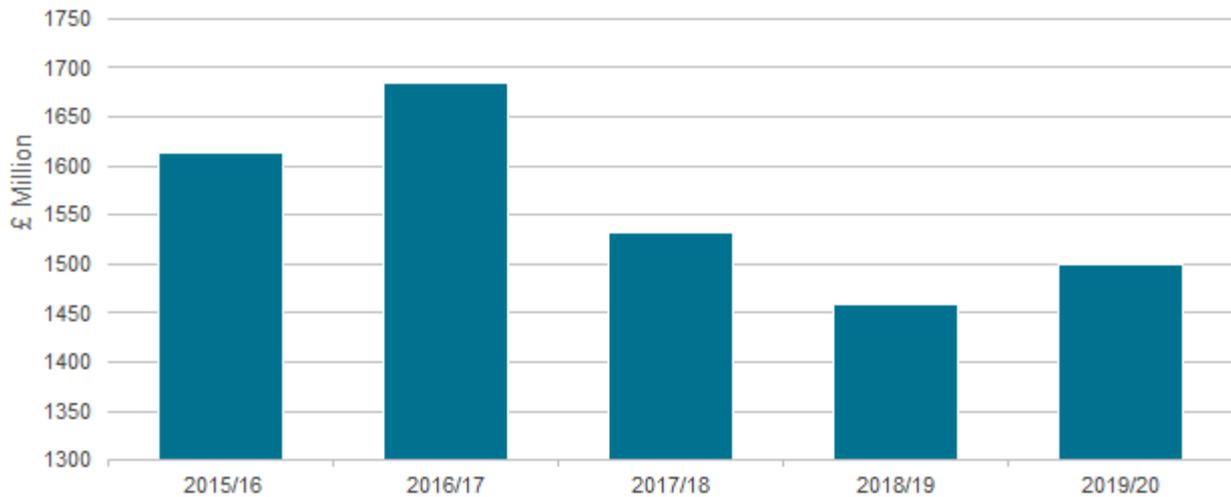
## Borrowing levels have remained relatively constant

**48.** At 31 March 2020, the council's total debt outstanding stood at £1,498.7 million, an increase of £40 million on the 2019 level of £1,458.7 million. The council's level of debt remains relatively constant in recent years.

**49.** Total external debt, which includes the council's long-term liabilities, is managed in line with the council's treasury management strategy. The council's policy is to borrow only for capital investment purposes and to meet short-term cash flow requirements. A total of £61 million of long-term loan repayments were made during 2019/20, with a total of £90 million long-term loans taken out. [Exhibit 6](#) shows the council's debt levels since 2014/15. The council reviews the affordability of future borrowing.

## Exhibit 6

### The council's debt levels since 2015/16



Source: Glasgow City Council financial statements

**50.** Having reviewed the council's treasury management strategy and considered its approach to borrowing in light of guidance and good practice, we have concluded that the council continues to have a prudent approach to borrowing.

### Financial systems of internal control operated effectively

**51.** 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.

**52.** Overall, we found that key controls were operating effectively. No significant internal control weaknesses were identified 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.

**53.** We identified two improvement areas which were highlighted to officers:

- **Journal Authorisation.** On a four weekly basis senior finance managers retrospectively review and authorise journals in excess of £50,000 and evidence this by completing a schedule, recording their name and date of authorisation. We tested a sample of schedules and found one instance where the authorisation had not been recorded. There is an increased risk of unauthorised journals being processed if not subject to review.
- **Level 2 quality assurance checks.** The Quality Assurance Team carry out weekly checks on the discounts/reliefs awarded for Council Tax, Non-Domestic Rates and Housing Benefits. However, between June and August the team were redirected to other priority activities. During this period there is an increased risk of errors or fraud occurring in relation to taxation receipts, welfare benefits, grants and other claims.

**54.** We did not identify any issues arising from these two matters from our substantive audit procedures on the financial statements.

**55.** The council's response to the impact of COVID-19 has resulted in significant changes to the normal business operations and working arrangements. From late

March 2020 the normal systems of internal controls would have been subject to change in some areas. We therefore designed our audit approach to include an appropriate level of substantive testing of significant year-end transactions. We did not identify any issues arising from our audit work year-end financial transactions.

**56.** The council's Internal Audit function has revised their Annual Plan for 2020/21 to consider the impact of the pandemic on the council's control environment and to outline their detailed work programme to provide assurance on how the impact has been managed. The FASC approved this updated Annual Audit Plan at the meeting held on 30 September 2020.

**57.** We will consider the impact of COVID-19 on the council's control environment, and the assurances gained through internal audit reviews, as part of our work on the 2020/21 audit.

### Internal audit

**58.** We reviewed the council's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could make use of the work of internal audit. For our 2019/20 financial statements audit we have used the work of internal audit in relation to payroll verification, bank reconciliations and grant approval process.

**59.** In respect of our wider dimension audit responsibilities we considered the findings of internal audit work in relation to performance management, risk management, capital governance, IT compliance and information security.

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

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

**61.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**62.** We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

### National Fraud Initiative activity has identified significant savings

**63.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Audit Scotland coordinate NFI in Scotland. Computerised techniques are used to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**64.** Regular reports on NFI progress and outcomes are taken to the FASC. This helps to ensure that members and senior managers are well informed on the progress and findings arising from the National Fraud Initiative.

65. NFI activity is summarised in [Exhibit 7](#). On 2 Dec 2020 the council reported that it had received a total of 25,448 matches to investigate in relation to the 2018/19 exercise. Of the 6,833 cases investigated, the council found one case of fraud and 594 errors and identified savings of £307,109.

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## Exhibit 7 NFI activity



**25,448**  
**Matches**



**23,184**  
**High Priority**



**6,833**  
**Processed / In progress**

Source: Glasgow City Council

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# Part 3

## Financial sustainability



### Main judgements

**The COVID-19 global pandemic has had a significant impact on the short-term finances of the council and the impact of this in medium/longer term planning is still to be evaluated.**

**The council has a forecast spending gap of £112.5 million over the next three years. Having delivered such significant savings it will be much more challenging for the council to make similar savings in the future while maintaining the same level of service provision.**

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.

### The financial impact of the COVID-19 pandemic is significant

**66.** The 2020-21 budget was approved by the full council on 20 February 2020 and subsequently updated by the CAC on 26 March 2020. Detailed service estimates were approved by the Executive Director of Finance on 23 April 2020 under emergency delegated powers and noted by the CAC on 4 June 2020.

**67.** The council's response to COVID-19 has incurred significant additional costs above those budgeted for, and there have been a number of areas suffering from reduced income as a result of lockdown restrictions. To identify the financial implications of COVID-19 the council introduced additional financial monitoring arrangements covering direct costs, other cost implications, reductions in income generation and areas of reduced spend.

**68.** The costs to date of COVID-19 are being identified and reported in the regular revenue budget monitoring reports. Service budgets are adjusted for COVID-19 costs to help identify variances arising from business as usual. The latest 2020/21 budget monitoring report (period 8) shows that income and expenditure budgets have been adjusted across services to reflect the cumulative net impact of £49.3 million on services arising from the impact of COVID-19. The impact of COVID-19 on the capital programme is reported separately through the quarterly Investment Programme monitoring reports.

**69.** On 3 December 2020 the council reported the projected gross impact of COVID-19 on 2020/21 revenues to be £126.4 million across the council family, which includes arms-length external organisations (ALEOs). With government funding of £45 million this leaves a funding gap of £81.4 million.

**70.** The council and COSLA have been in discussion with the Scottish Government to identify further resources to bridge the remaining gap. These areas include support for lost income and a number of "fiscal flexibilities" that would allow financial impacts to be spread over the longer term. At this point the details of these proposals remain subject to discussion with COSLA and the Scottish Government. It is anticipated that these proposals would provide significant additional resources to offset the remaining gap.

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

**71.** 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 a ten-year property and land strategy.

**72.** In October 2020 the council's updated three-year financial forecast projected a total spending gap of £112.5 million for the period 2021/22 to 2023/24. This includes the financial impact of the equal pay settlement for 2019/20 and future years.

**73.** Medium and longer-term plans have yet to be updated to reflect the future financial impact of the COVID 19 pandemic. It is important that the council updates its medium-term financial plan as soon as more clarity on the financial impacts of COVID-19 is available.



### Recommendation 1

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**The council should update its medium-term financial plan as soon as more clarity on the financial impacts of COVID-19 is obtained ([Appendix 1](#))**

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## Financial sustainability remains a significant challenge

**74.** 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. These include rising demands for services, increasing cost of services and reductions in local government funding. The funding of the equal pay settlement has also placed additional financial pressure on the council over the longer term.

**75.** In recent years the council's main solutions for bridging spending gaps have been a combination of efficiency savings, income generation, partnership working, use of reserves and management of financing costs.

**76.** One other option that the council has made use of during 2019/20 was to re-profile its internal loan fund repayment schedule. This will result in a financial benefit in the shorter term with the council being required to set aside a smaller amount of revenue than planned to repay its debt, leaving them funds to utilise elsewhere. However, in the medium to longer term, the amount of set aside will increase and require to be incorporated within future financial forecasts, putting increased pressure on future funding plans.

**77.** Over the last seven years the council has successfully delivered total savings of over £270 million. Having delivered such significant savings it will be much more challenging for the council to make similar savings in the future while maintaining the same level of service provision. It is likely that alternative solutions will be required to address identified funding gaps, and this may include taking some difficult decisions around service provision.

**78.** The council's COVID-19 response and recovery framework and renewal programme (see para 114) presents an opportunity for the council to consider alternative solutions to address identified funding gaps.



## Recommendation 2

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**In light of the impact of COVID-19, and as part of its response and recovery framework and renewal programme, the council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary ([Appendix 1](#))**

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### Funding the cost of equal pay liabilities

**79.** In 2018 the council agreed to address around 15,000 equal pay claims covering the period up to 31 March 2018. Following a period of negotiations, the total cost of settling existing claims was determined to be £504.8 million and was fully provided for by 31 March 2019. During 2019/20 the required provision in respect of these claims was updated to £500.6 million of which £499.6 million was paid out during the year.

**80.** The settlement does not fully extinguish the council's equal pay liability. In addition to the remaining £1.0 million to be paid as part of the original settlement the council has provided for a further £6.0 million in respect of known additional claims currently under negotiation.

**81.** In addition to the £549.0 million raised through its equal pay funding strategy the council applied savings from in year lease payments to offset costs. This has meant that, after accounting for the cost of existing claims during 2019/20, the council has been able to earmark £69.9 million of its General Fund reserves towards the settlement of any future outstanding equal pay liability. Until a new pay and grading model is in place there continues to be a potential equal pay liability from 1 April 2018 in relation to employees in some existing roles.

**82.** The council continues to work towards the completion of the necessary job evaluation exercise prior to its introduction of a new pay and grading model. The pay and grading model will be based upon the ranked order of jobs obtained through the SJC Job Evaluation Scheme. Progress towards the initial completion target of April 2021 has been significantly delayed by the impact of COVID-19. The impact of the pandemic has prevented progress since the beginning of lockdown. To ensure the safety of all participants a new virtual approach to the briefing and interview process has had to be developed. The council are unable to estimate a new target completion date until the new virtual approach is put into operation and monitored.

# Part 4

## Governance and transparency



### Main Judgements

**Appropriate governance arrangements are in place to support the scrutiny of decisions made by the council.**

**In response to the impact of COVID-19 the council reacted quickly to establish emergency governance arrangements that were appropriate and supported good governance and accountability.**

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

### Governance and transparency arrangements were appropriate

**83.** In September 2018 an independent, external review found that the council's committee structure and remits were sensible but had been introduced quickly with little preparation time and support and an investment was required to make sure the new system works well. A short life working group was established to oversee the implementation of the action plan to address recommendations for improvement. A follow up report on the council's progress against the action plan is scheduled for FASC in February 2021. We will review the council's assessment of progress as part of our 2020/21 audit.

**84.** During 2019/20 we reviewed the council's governance arrangements including committees, schemes of delegation, standing orders, statutory officer roles, financial scrutiny and internal audit. As in previous years we found committee papers to be of a good standard and that members provide effective scrutiny and challenge. Both of the council's scrutiny committees conduct an annual assessment of the effectiveness and role of the committees.

**85.** Overall, we have found that the governance arrangements are appropriate and effective and support good governance and accountability.

### The COVID-19 pandemic had a significant impact on governance arrangements from March 2020

**86.** The impact of COVID-19 from March 2020 on the functions of the council was set out in the Annual Governance Statement within the annual report and accounts. The council changed a number of governance arrangements to help to manage the unprecedented nature and scale of the threat to communities and staff, and to prioritise its response, including:

- the council's Emergency Committee met twice during March 2020 and considered the council's emergency response to the impact of COVID19.
- the implementation on 17 March 2020 of temporary decision-making arrangements with the suspension of council, committee and community

planning partnership meetings and increased delegations to officers and conveners. Decisions requiring approval by elected members were taken by a reduced membership of CAC.

- full membership of the CAC was re-instated from 4 June with other committees meeting again from June, including the FASC and the Operational Performance and Delivery Scrutiny Committee. Full council meetings were re-instated on 30 July 2020.
- during this period regular updates on changes to the council's governance and scrutiny arrangements were taken to the CAC.

**87.** Going forward, the council is developing existing governance arrangements to help ensure delivery of its response and recovery framework (see para 114).

**88.** We considered the adequacy of the council's governance and scrutiny arrangements in response to the impact of COVID-19 and concluded that they were appropriate and support good governance and accountability.

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# Part 5

## Best Value

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### Main judgements

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**The council has made good progress in addressing the recommendations made in our 2017/18 Best Value Assurance Report. However, the council still faces significant challenges around meeting its statutory duties in relation to homelessness and temporary accommodation.**

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**The council has appropriate arrangements in place for following the public pound.**

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Best Value is concerned with using resources effectively and continually improving services.

### The council is making good progress in securing Best Value

**89.** 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 Glasgow City Council was published in August 2018. Overall, we reported that, over a period of substantial change, the council had made steady progress since the previous best value report in 2009.

**90.** Our BVAR made seven recommendations across a range of areas including performance management, homelessness, equal pay and partnership working. This year our best value audit work was again focused on following up the progress made by the council in response to our recommendations.

**91.** In September 2018 the council established an action plan to address our BVAR recommendations. It agreed that delivery of the actions would be progressed by lead officers and through the then Extended Council Management Team, with progress reported to the FASC. The last progress report was submitted to FASC on 3 March 2020. Going forward, progress of outstanding recommendations will continue to be overseen by, and reported to, existing governance structures, including the Corporate Management Team and the CAC.

**92.** The council reported it had agreed its homelessness improvement plan with the Scottish Housing Regulator (SHR) and continued to engage with them around the ongoing homelessness audit. On 4 November 2020 the SHR published the report on its inquiry into the council's services for people who are experiencing homelessness. The inquiry found that the council has made some important improvements to its services and identified areas of positive practice. The report also highlighted that the council has offered temporary accommodation to almost all people who require it during the COVID-19 pandemic.

**93.** However, the inquiry also found that before COVID-19 the pace of improvement was slow with regard to improving its services around its statutory duty to provide temporary accommodation. The council did not ensure that it had enough suitable temporary accommodation and did not provide temporary accommodation to significant numbers of people when they needed it. Going forward, the council faces major challenges in providing appropriate temporary and settled accommodation to those that need it, and to comply with the newly amended Unsuitable Accommodation Order.



### Recommendation 3

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**The council should continue to engage with the SHR and other stakeholders to address the recommendations arising from the SHR inquiry ([Appendix 1](#))**

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**94.** All other BVAR actions were reported as being complete with the exception of ongoing work to strengthen third party relationships. We discussed the council's self-assessment of progress on these remaining recommendations with key officers and reviewed relevant supporting documentation. Overall, we concluded that the council had made good progress in addressing these BVAR recommendations.

### Appropriate arrangements are in place for following the public pound

**95.** 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 Arm's Length External Organisations (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.

**96.** 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.

**97.** 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. A report on the most recent review, recommending the winding up of City Parking and transfer of staff assets and liabilities to the council, along with the transfer of business/enterprise services currently within Jobs and Business Glasgow to the council, was considered by the CAC on 14 January 2021.

**98.** The council's COVID-19 response and recovery framework and renewal programme (see para 114) presents an opportunity for the council to consider the strategic impact on its service/ALEO model.

**99.** We concluded that 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

**100.** The council's performance management arrangements were 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.

**101.** The latest Annual Performance Report was approved by the CAC on 3 December 2020. The format of this report has been reviewed and refreshed to provide a shorter, more accessible summary performance report. The annual performance reports are available to the public on the council's web page.

**102.** 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.

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

## Statutory performance indicators (SPIs) are being met

**104.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. 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.

**105.** 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.

**106.** We considered the council's arrangements for complying with the direction and found these to be appropriate and effective.

## Overview of performance targets

**107.** The most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service shows that overall the council compares favourably with other councils across a range of areas. Areas where the council's performance was in the highest ranked quartile include directed support spend on adults, sickness absence (non-teacher) and properties receiving superfast broadband. Areas where the council's performance was in the lowest ranked quartile include school exclusion rates (looked after children), older persons home care costs and spend on direct payments and personalised managed budgets.

**108.** In November 2020 the Strategic Plan Progress Report 2019/20 to the OPDSC showed that the council was on track to deliver its Strategic Plan. Of the 236 commitments, 36 (15%) have been completed and 144 (61%) on target for

completion. However, 56 (24%) out of 236 commitments are behind target. The majority of this slippage is concentrated in two areas, “A Vibrant City” and “A Sustainable and Low Carbon City” which between them account for slippage against 33 commitments (or 14% against the total number of 236 commitments).

**109.** Overall, we have concluded that the council has made reasonable progress with the delivery of its strategic priorities, with 75% of actions either complete or on target. As part of our BVAR follow-up work we will continue to monitor how the council measures its progress on strategic objectives.

### **To address the impact of COVID-19 the council has implemented a response and recovery framework**

**110.** In March 2020, as part of its initial response to the impact of COVID-19, the council invoked a command and control structure with the aim of delivering a clear strategic, tactical and operational response to the pandemic. Key to this was frequent meetings and reporting and close partnership working with partner organisations and the Scottish Government. The focus was on prioritising resources and continuing business critical activities to support and protect citizens, communities and businesses across the city and providing emergency assistance. Flexible working arrangements were developed, including new ways of using ICT to access and share information.

**111.** The command and control structure comprised of the strategic Gold command group (chaired by the Chief Executive) and the tactical Silver command group which was called the COVID-19 Contingency Planning Working Group (chaired by the Director of Governance and Solicitor to the Council). For the operational Bronze response all services and ALEOs used local implementation groups to consider matters specific to their own business areas within the wider Council Family response context.

**112.** The council's initial operational response included the prioritisation of critical functions and services and suspension of non-critical functions and services. New ways of working were introduced, including home working and changes to working patterns. There was an accelerated roll out of new technology to support home working and connectivity, including hardware such as laptops and telephones, along with business related software such as Microsoft Teams.

**113.** The council introduced physical distancing measures across its estate and prioritised the procurement and provision of personal protective equipment to front line staff. In addition, a staff volunteer scheme was implemented to match resources with demand in critical areas. There were also daily communications to staff, including health and wellbeing guidance.

**114.** In recognition of the long-term impact of COVID-19 the council has developed a Renewal Programme Strategy and governance framework. The framework sets out the vision, objectives, and governance arrangements that will support delivery of the council's Renewal Programme. The six strategic objectives of the Renewal Programme are aligned with the seven priority themes set out in the council's 2017-22 Strategic Plan.

**115.** The governance arrangements that have been established to deliver the Renewal Programme includes the Renewal Oversight Group (chaired by the Leader of the Council) and the Renewal Programme Board (chaired by the Executive Director of Finance). Scheduled thematic updates are submitted to the OPDSC with updates to the FASC. In addition, the council's response and renewal to COVID-19 is a standing item on the agenda of the Corporate Management Team.

**116.** We will assess the council's progress in the implementation of its Renewal Programme as part of the 2020/21 audit.

## National performance audit reports

**117.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the council. These are outlined in [Appendix 3](#).

**118.** The council has well established and effective arrangements in place to ensure that our national reports and their impact on the council are considered by members.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial Sustainability</b></p> <p>Medium and longer-term plans have yet to be updated to reflect the future financial impact of the COVID 19 pandemic</p> <p><b>Risk</b> The council's medium and longer-term financial planning may not support the management and delivery of its strategic objectives.</p>	<p>The council should update its medium-term financial plan as soon as more clarity on the financial impacts of COVID-19 is obtained.</p> <p><a href="#">Paragraph 73</a></p>	<p>Future financial forecasts will reflect the latest assessment of the impact of COVID-19 and the work of the council's renewal programme</p> <p><b>Responsible officer</b></p> <p>Executive Director of Finance</p> <p><b>Agreed date</b></p> <p>Annually as part of the annual budget process</p>
2	<p><b>Efficiency savings</b></p> <p>The council achieved actual savings of £19.3 million in 2019/20, 85% of target.</p> <p><b>Risk</b> The failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.</p>	<p>In light of the impact of COVID-19, and as part of its response and recovery framework and renewal programme, the council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary.</p> <p><a href="#">Paragraph 78</a></p>	<p>All savings plans are subject to management and member scrutiny and will continue to be reported as part of the council's budget and financial reporting framework.</p> <p><b>Responsible officer</b></p> <p>Executive Director of Finance</p> <p><b>Agreed date</b></p> <p>In line with budget and monitoring timetables</p>
3	<p><b>Homelessness</b></p> <p>The council faces major challenges in providing appropriate temporary and settled accommodation to those that need it, and to comply with the newly amended Unsuitable Accommodation Order.</p> <p><b>Risk</b> - the pace of service improvement may be insufficient to meet the ongoing needs of service users.</p>	<p>The council should continue to engage with the SHR and other stakeholders to address the recommendations arising from the SHR inquiry.</p> <p><a href="#">Paragraph 93</a></p>	<p>The council will continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its Rapid Rehousing Transition Plan 19/20 – 23/24 (RRTP). The plan will be updated to reflect the challenges faced by the council as a consequence of the public health emergency. The council will continue to engage with the SHR as it continues to improve access to settled and emergency accommodation and comply wherever possible with the</p>



**No. Issue/risk**



**Recommendation**



**Agreed management action/timing**

newly amended Unsuitable Accommodation Order.

**Responsible officer**

Chief Officer, Glasgow Health and Social Care Partnership

**Agreed date**

Key milestones in line with published RRTP through to 31 March 2024

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### Follow up of prior year recommendations

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<p><b>4</b></p>	<p><b>Efficiency savings</b></p> <p>The council achieved actual savings of £20.9 million in 2018/19, 72% of target.</p> <p><b>Risk</b> - the failure to fully deliver planned efficiency savings puts additional pressure on future year budgets.</p>	<p>The council should ensure that future savings targets are underpinned by robust and risk-assessed action plans. These should be reviewed regularly to ensure remedial action is taken where necessary.</p>	<p><b>Complete:</b> Achievement of savings in 2019/20, and additional challenges going forward set out in recommendation 2 above.</p>
<p><b>5</b></p>	<p><b>Financial sustainability</b></p> <p>The council has implemented an equal pay funding strategy that spreads the cost of settlement into the future and helps to minimise the impact on service delivery. However the scale of required savings within the annual budget continues to grow, making it increasingly challenging to maintain current service delivery levels.</p> <p><b>Risk</b> - The council's medium/longer-term financial planning may not support the management and delivery of its strategic objectives.</p>	<p>The council should ensure that its longer-term financial strategy and plans support the development of future savings programmes.</p>	<p><b>Complete:</b> The council's financial forecast has been updated to reflect the ongoing impact of equal pay settlements.</p>

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No.	Issue/risk	Recommendation	Agreed management action/timing
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6

**Homelessness**

Although the service has made progress in developing and implementing its improvement plan and rapid re-housing transition plan, this has yet to translate into desired improvement in service attainment levels.

**Risk** - the pace of service improvement may be insufficient to meet the ongoing needs of service users.

The council should continue to engage with the Scottish Housing Regulator and other stakeholders on the implementation of its homelessness strategy and plans.

**Ongoing:** See recommendation 3 above.

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the council and the reasonableness of the estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>We tested a sample of journal entries.</p> <p>We reviewed the estimation methodology and assessed the reasonableness of the estimates.</p> <p>We tested a sample of transactions taken from both pre and post year end to confirm expenditure and income had been accounted for in the correct financial year.</p> <p>We tested a sample of accruals and prepayments and evaluated significant transactions that were outside the normal course of business.</p> <p><b>Conclusion:</b> Our testing did not identify any evidence of management manipulating accounting records or overriding controls.</p>
<p><b>2 Expenditure recognition</b></p> <p>Most public sector bodies are net expenditure bodies. Therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Specific fraud risks relevant to public sector audit include welfare benefits, grants and other claims made by individuals and organisations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Walk-through of controls identified within key financial systems.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Detailed audit work on estimation and judgements.</p>	<p>We carried out an analytical review of expenditure streams to confirm completeness and identify any unusual transactions or variations in expenditure.</p> <p>We carried out a walk-through of key controls within the key financial systems.</p> <p>We substantively tested a sample of expenditure transactions to confirm</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>Consideration of the work of the council's Corporate Fraud Section.</p>	<p>occurrence and accuracy of amounts in the financial statements.</p> <p>We evaluated the council's accounting policies for expenditure.</p> <p>We tested a sample of journal entries.</p> <p>We considered the work of the council's Corporate Fraud Section.</p> <p><b>Conclusion:</b> The council has appropriate arrangements in place to minimise the risk of fraud over expenditure.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Evaluate the competence, capabilities and objectivity of both the professional valuer and professional actuary.</p> <p>Obtain assurances on the pension fund control environment.</p> <p>Assess the reasonableness and appropriateness of actuarial assumptions.</p> <p>Focused substantive testing of key areas of non-current assets and of provisions.</p> <p>Review and assess the carrying value of assets identified for sale and leaseback, to ensure they have been properly valued.</p> <p>Sample check accruals and provisions in the 2018/19 annual accounts.</p>	<p>We completed a 'review of the work of an expert' for the professional valuer.</p> <p>We completed a 'review of the work of an expert' for the professional actuary, and reviewed the appropriateness of actuarial assumptions.</p> <p>We assessed the effectiveness of the pension fund control environment.</p> <p>We carried out focused substantive testing of key areas of non-current assets and of provisions.</p> <p>We reviewed and assessed the carrying value of sale &amp; leaseback assets.</p> <p>We tested a sample of accruals and provisions in the 2019/20 annual accounts.</p> <p><b>Conclusion:</b> Estimates and judgements disclosed in the financial statements are reasonable and evidence based.</p>
<p><b>4 Accounting for the funding strategy to meet the cost of the equal pay settlement</b></p> <p>The council's funding strategy to meet the cost of the equal pay settlement will generate £549 million of income.</p>	<p>Review of Treasury Management Strategy and Annual Investment Strategy.</p> <p>Assess compliance with accounting requirements for leases.</p>	<p>We reviewed the 2019/20 Treasury Management Strategy and Annual Investment Strategy.</p> <p>We assessed whether the council has accounted for finance leases in line with</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The strategy is based on the re-financing of an existing City Property loan and the sale and leaseback of 11 council owned operational properties.</p> <p>There is a risk that the council does not properly account for the funding strategy to meet the cost of the equal pay settlement or make appropriate disclosures in its financial statements.</p>	<p>Focussed substantive testing of asset disposals, provisions and reserves.</p> <p>Review and assess the appropriateness of disclosures around equal pay funding, including financial guarantees.</p>	<p>relevant accounting requirements.</p> <p>We substantively tested a focussed sample of asset disposals, provisions and reserves.</p> <p>We reviewed and assessed the appropriateness of disclosures around equal pay funding, including financial guarantees.</p> <p><b>Conclusion:</b> The council has properly accounted for the funding strategy to meet the cost of the equal pay settlement.</p>

<p><b>5 Changes to group boundary</b></p> <p>To facilitate the equal pay funding agreements the council has established three new Special Purpose Vehicles which are ultimately owned by the council. This means that there will be a change to the council's group structure.</p> <p>There is a risk that these changes to the council's group structure are not properly accounted for in the group financial statements</p>	<p>An assessment of the council's treatment of its group components.</p> <p>A review of the council's arrangements for the consolidation process for its financial statements.</p> <p>Focussed testing of the group financial statements.</p>	<p>We assessed of the council's treatment of its group components.</p> <p>We reviewed the council's consolidation process for its financial statements.</p> <p>We carried out focussed testing of the group financial statements.</p> <p><b>Conclusion:</b> The council has properly accounted for changes to its group boundary.</p>
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## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>6 Financial sustainability</b></p> <p>The council faces significant financial challenges, including</p> <ul style="list-style-type: none"> <li>• a spending gap of £41.8 million for the period 2019/20 to 2020/21</li> <li>• meeting the funding commitments arising from the £505 million cost of the equal pay settlement</li> <li>• local government funding settlements are likely to remain challenging</li> <li>• ongoing rising demands for services</li> <li>• increasing costs across services</li> <li>• implementation of a new pay and grading system</li> </ul> <p>There are additional uncertainties that are likely to have a financial</p>	<p>We will assess the adequacy of the council's longer-term financial plans.</p> <p>An assessment of the council's financial position based on our review of the council's financial performance and budget reports.</p> <p>Assessment of the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee.</p> <p>Review and assessment of provisions and contingent liability disclosures as part of our financial statements audit.</p>	<p>We assessed the council's longer-term financial management arrangements.</p> <p>We reviewed the council's financial performance and budget reports.</p> <p>We considered the council's savings programme and the robustness of future savings plans. We also considered the adequacy of progress reports to committee.</p> <p>As part of our financial statements audit, we assessed the provisions and contingent liability disclosures.</p> <p>Our meetings with officers included discussions around the council's financial plans.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>impact on the council. These include EU withdrawal, ending of public sector pay settlement and new financial powers for the Scottish Government.</p> <p>To meet these challenges and deliver its strategic objectives it is important that the council has strong longer-term financial plans.</p>	Regular meetings with officers	<p><b>Conclusion:</b> The council has strong financial management arrangements.</p>

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# Appendix 3

## Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

# Appendix 4

## Who we are

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

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



## About us

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

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

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

# Glasgow City Council

## 2019/20 Annual Audit Report

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