

GLASGOW CITY COUNCIL INTERNAL AUDIT SECTION

GLASGOW CITY REGION CABINET REPORT

Title of the Audit: Glasgow City Region City Deal – Programme and PMO Budget Monitoring

1. Introduction

1.1 Glasgow City Council (GCC) is the lead authority for the £1.13bn Glasgow City Region City Deal. Each member authority is responsible for submitting financial monitoring information on a quarterly basis to the Project Management Office (PMO) within GCC, which with support from the Council's Corporate Finance department, is the central point for the financial monitoring and reporting for the overall City Deal programme. Reports are prepared by the PMO and taken to various senior officer groups and the Glasgow City Region City Deal Cabinet.

1.2 In addition to the programme budget, a separate budget is in place for the salary costs and administrative expenses incurred by the PMO, which for 2018/19 was £1.24m. This is recharged to the eight participating local authorities, and annual accounts are prepared based on the financial transactions within this budget.

1.3 The purpose of the audit was to gain assurance that the processes within the PMO for monitoring and reporting on the financial performance of the City Deal programme ensure that the Cabinet and senior officer groups are presented with accurate, reliable and up-to-date information on which to monitor the programme and base decisions. The scope of the audit included a review of:

- Key governance documents which determine how the budget is to be monitored and reported;

- Documented procedures in relation to budget monitoring and control for both the programme and PMO budgets;
- Roles and responsibilities of the officers involved in the process;
- The annual budget setting process including allocation of surpluses;
- The programme budget monitoring process and reporting to Cabinet and senior officer groups;
- The process for identifying and addressing variances;
- The arrangements and approval processes for alterations to budgets;
- PMO budget monitoring processes;
- The year end processes including inclusion in GCC group accounts.

1.4 The Skills and Employability projects were reviewed as part of an audit within the 2017/18 Audit Plan and therefore the focus of this audit was on the Infrastructure Programme. Innovation projects were also excluded from this review as the programme is complete, with only benefits realisation tracking being monitored.

2. Audit Opinion

2.1 Based on the audit work carried out a reasonable level of assurance can be placed upon the control environment. The audit has identified some scope for improvement in the existing arrangements and four recommendations which management should address.

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3. Main Findings

- 3.1 We are pleased to report that key controls are in place and generally operating effectively. The high level requirements of the Assurance Framework in relation to budget monitoring have been complied with, and the PMO adhere to the timetables for reporting financial information. A budget setting process is in place for both the City Deal Programme infrastructure budget and the PMO budget, where budgets are reported to and approved by Cabinet, following scrutiny by both the Finance Strategy Group and Chief Executives' Group. Furthermore a hierarchy within the ledger is set up to allow for programme grant income, member authority grant allocations and PMO spend to be coded and recorded. Based on sample checking of the financial data presented in the City Deal programme budget monitoring report, the financial position is reported accurately on a quarterly basis to the relevant groups.
- 3.2 However, our audit testing found that there are some areas where improvements can be made. The annual Scottish Government Grant Offer letters for 2017/18 and 2018/19 were received in December 2017 and February 2019 respectively. These letters require the signature of the Section 95 Officers within each member authority to confirm understanding of the grant terms and conditions. However as the letter was received at a later date in the financial year, the Officers are not signing this document to confirm their understanding of terms and conditions at the start of the financial year prior to incurring spend against projects. Therefore there is a risk that grant recipients may not comply with the relevant conditions

of the grant.

- 3.3 Presently, infrastructure project budgets are recorded within the financial monitoring spreadsheets used to prepare the quarterly financial statements. We established that project budgets of five member authorities had altered from the original approved budget in the Assurance Framework. On two occasions, the new project budget was entered in the spreadsheet, with no record of the change being noted in this file. With no separate budget tracker being maintained, the audit trail is not sufficient to allow changes to budgets to be easily monitored.
- 3.4 Budgets relating to the PMO salary and administrative costs are not held in the SAP ledger, only the related income and expenditure is recorded within this system. Instead, budgets are maintained within the financial monitoring spreadsheet. With budgets not being held in a ledger, there is an increased risk that errors could be made to the budgeted amounts, or in the event a file is deleted, budgetary information being lost.
- 3.5 The procedural document in place within the PMO for the financial management processes was developed in 2017 and could be improved and updated. It does not include the detailed process for calculating member authority grant allocations or the various tasks to be undertaken at year end. The task list contained in this note does not record all duties undertaken by the Finance Manager responsible for the management of the Infrastructure and PMO Budget. A lack of comprehensive documented procedures can increase the risk of inconsistent practices, particularly if experienced

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officers are absent or move positions.

- 3.6 An action plan is provided at section four outlining our observations, risks and recommendations. We have made four recommendations for improvement. The priority of each recommendation is:

Priority	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	0
Medium	Less critically important controls absent, not being operated as designed or could be improved.	2
Low	Lower level controls absent, not being operated as designed or could be improved.	2

- 3.7 The audit has been undertaken in accordance with the Public Sector Internal Audit Standards.
- 3.8 We would like to thank officers involved in this audit for their cooperation and assistance.
- 3.9 It is recommended that the Head of Audit and Inspection submits a further report to Cabinet on the implementation of the actions contained in the attached Action Plan.

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Written policies and procedures, reflecting current practices, regulations and legislation, and approved by senior management, are in place for City Deal financial monitoring and available to relevant staff.				
1	<p>A procedural document exists detailing various financial management processes within the City Region PMO. This was produced by the previous Finance Manager in 2017.</p> <p>From reviewing the tasks undertaken by the Finance Manager, we established that the procedures did not contain guidance on how to perform the grant allocation calculation or detail all of the year end duties in relation to the City Deal programme budget and the PMO budget. The task list contained within the document also did not list all financial monitoring duties carried out within the PMO.</p> <p>A lack of comprehensive documented procedures can increase the risk of inconsistent practices, e.g. in the event that experienced finance officers are absent or move positions.</p>	<p>The Finance Manager should ensure that documented procedures are updated and incorporated in the Project Management Toolkit (which will form part of the revised Assurance Framework). This document should include:</p> <ul style="list-style-type: none"> • Direction on the calculation required to allocate the annual £30million grant to each member authority. • Details of all processes carried out at year end for the Infrastructure project and the PMO budget. <p>A task list which details the role and responsibilities of the Finance Manager in relation to the City Deal Programme budget and PMO budget was previously noted by the Finance Strategy Group, and it would be beneficial to also include this in the procedural document.</p> <p>Once updated, the financial procedures document should be subject to review and include version control at appropriately regular intervals, in accordance with the Assurance Framework review and annual grant agreement requirements.</p>	Medium	<p>Response:</p> <p>Accepted</p> <p>Officer Responsible for Implementation:</p> <p>PMO Finance Manager</p> <p>Timescale for Implementation:</p> <p>September 2019</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: There is an effective system for recording alterations to the budget during the year, there is a reconciliation of the amended budget and all necessary approvals and permissions (both internal and external) have been obtained.				
2	<p>Within the Infrastructure Programme, alterations to project budgets can occur as a result of changes in Business Cases or virements between projects within Member Authorities.</p> <p>At present, the budgets are held within the financial monitoring spreadsheets used to prepare the quarterly financial statements, with no separate tracker maintained to provide an audit trail to support the dates, reasons and approvals for changes. We were advised that two of these changes occurred before the current Finance Manager took up post. We established that project budgets within five member authorities had altered from the original approved budget in the Assurance Framework, through four internal virements and one overall budget reduction. On two occasions, there was no evidence of the change being recorded within this document, instead the new project budget was directly entered in the spreadsheet.</p> <p>With no separate budget tracker being</p>	<p>The Finance Manager should introduce a budget tracker in order to maintain an audit trail of all changes made to projects budgets within the infrastructure programme, including changes to project contingencies and optimism bias. This should record details of any alterations including the date of and the reason for the change, when approval was granted by the appropriate group and the amount the budget is being altered by.</p> <p>The budget tracker should also be incorporated into the updated documented procedures referred to at action 1.</p>	Medium	<p>Response:</p> <p>Accepted</p> <p>Officer Responsible for Implementation:</p> <p>PMO Finance Manager</p> <p>Timescale for Implementation:</p> <p>June 2019</p>

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	maintained, the audit trail is not sufficient to allow changes to budgets to be easily monitored.			
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No.	Observation and Risk	Recommendation	Priority	Management Response
3	<p>The PMO budget is currently managed on a financial monitoring spreadsheet and used as the basis for budget setting and quarterly financial monitoring. Budgets are not held in the SAP ledger, only the related income and expenditure is recorded within this system.</p> <p>It would be good practice for the PMO budget to be recorded on the SAP ledger so that any amendments can be tracked.</p>	The Finance Manager, in conjunction with Corporate Finance, should consider uploading the PMO budget into the SAP ledger system.	Low	<p>Response:</p> <p>Accepted</p> <p>Officer Responsible for Implementation:</p> <p>PMO Finance Manager</p> <p>Timescale for Implementation:</p> <p>June 2019</p>

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No.	Observation and Risk	Recommendation	Priority	Management Response
Key Control: Budget holders are formally notified and are given details of their budgets (including any alterations during the year) and responsibilities and are required to indicate acceptance.				
4	<p>The Grant Offer letter received from the Scottish Government (SG) for the annual grant of £30million requires the Section 95 Officers within each member authority to sign the letter to confirm understanding of the grant terms and conditions, every financial year the grant is awarded.</p> <p>The 2017/18 final grant offer letter was received from the SG in December 2017, and the 2018/19 letter in February 2019, which is a significant amount of time after the financial year has commenced. Consequently, Section 95 Officers are not able to sign this document to confirm their understanding of terms and conditions at the start of the financial year albeit they will be incurring spend against projects.</p> <p>There is therefore a risk that grant recipients may not comply with the relevant conditions of the grant, if they have not been required to sign the grant award letter to nearer the end of the period the grant amount covers.</p>	<p>The PMO should continue to liaise with the SG to endeavour to ensure that the annual grant offer letters are received and signed as early in the year as possible.</p>	Low	<p>Response:</p> <p>Accepted</p> <p>Officer Responsible for Implementation:</p> <p>PMO Finance Manager</p> <p>Timescale for Implementation:</p> <p>For 2019/20 grant offer letter - September 2019</p> <p>Thereafter, ongoing.</p>