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# Glasgow City Council

[Provisional] Annual Audit  
Plan  
Year ended 31 March 2026

17 June 2026



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## About this report

This plan has been prepared in accordance with Terms of Appointment Letter, through which Audit Scotland and the Accounts Commission have appointed us as external auditor of Glasgow City Council for financial years 2022/23 to 2026/27.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report. Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk.

To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

## Accessibility

Our Report may be available on Audit Scotland's website, and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018. Responsibility rests with the publishing organisation to ensure that standards are met.

# Executive summary

## Purpose of our plan

The Accounts Commission for Scotland appointed EY as the external auditor of Glasgow City Council (“the Council”) and its Group (“the Group”) for the five-year period to 2026/27.

This [provisional] Annual Audit Plan, prepared for the benefit of senior management and the Finance and Audit Scrutiny Committee, sets out our proposed audit approach for the audit of the financial statements for the year ended 31 March 2026. In preparing this [provisional] plan, we have continued to develop our understanding of the Group and Council through:

- Regular discussions with management;
- Review of key documentation, including Council and committee reports;
- Our understanding of the sector and environment in which the Group and Council is operating; and
- Our knowledge of the Group and Council based on information gathered in prior years.

Our audit quality ambition is to consistently deliver high-quality audits that serve the public interest. A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, including observations in relation to:

- Where the Group and Council employs best practice and where processes can be improved;
- The pace of improvement;
- How the Council demonstrates Best Value; and
- How effectively the Council is addressing its fundamental risks.

We will follow up on the prior year recommendations throughout our appointment to ensure implementation. In our 2024/25 Annual Audit Report, there were 32 open recommendations, including 11 new recommendations made in 2024/25. Of the open recommendations, 17 were Grade 1, 14 were Grade 2 and one was Grade 3.

We use data insights to form our audit recommendations to support the Group and Council in improving its practices around financial management and control, and in aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

This Annual Audit Plan is prepared on a provisional basis, to be presented to the Council’s Finance and Audit Scrutiny Committee in June 2026. After consideration by the committee, the finalised plan will be provided to Audit Scotland and published on their website.

## Our Key Contacts

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## Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (“the Code”), issued by Audit Scotland in June 2021; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland.

The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

## Independence

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as external auditor. Further information is available in Appendix B.

## Financial Statements audit

We are responsible for conducting an audit of the Group and Council’s financial statements. We provide an opinion as to whether they:

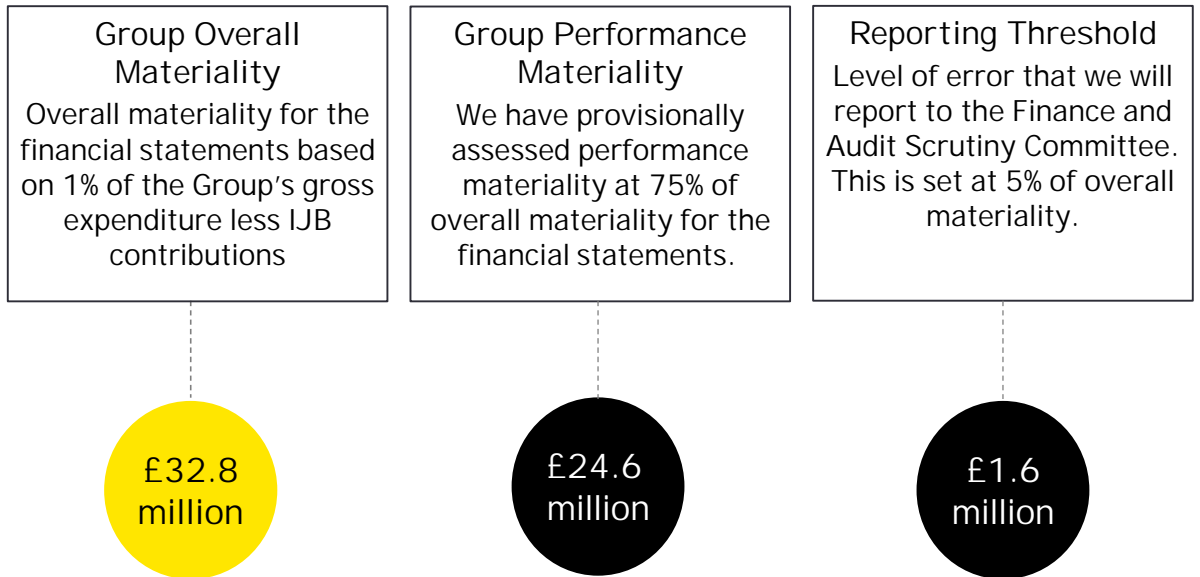
- Give a true and fair view of the state of affairs of the Council and its Group as at 31 March 2026 and of the income and expenditure of the Group and Council as at 31 March 2026;
- Have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 Code; and
- Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

## Materiality Assessment

We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our key considerations and materiality values are set out in Exhibit 1, below.

### Exhibit 1: Materiality Assessment in 2025/26



We provide further detail on the levels of materiality for the Group and Council on pages [17-19.] Based on our understanding of the expectations of financial statement users, we apply a lower materiality level to some areas, including the audited section of the Remuneration Report, Sundry trusts, the Common Good Fund and the Low Emissions Zone (LEZ) disclosure. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

## Wider Scope and Best Value audit

As a public sector auditor, our responsibilities extend beyond the audit of the financial statements. The Code of Audit Practice (2021) requires auditors to consider the arrangements by the Council to meet their Best Value obligations as part of our proportionate and risk-based wider scope audit work.

Wider scope audit requires consideration of:

- The Council's arrangements to secure sound financial management;
- The regard shown to financial sustainability;
- Clarity of plans to implement the vision, strategy and priorities of the Council, and the effectiveness of governance arrangements for delivery; and
- The use of resources to improve outcomes.

**Exhibit 2: Summary of significant risks identified for the audit in 2025/26**

5 significant risks, impacting the audit of the financial statements, have been identified with further details included in section 3.

Risk/area of focus	Change from prior year	Details
1. Risk of fraud in revenue and expenditure recognition (fraud risk)	Change in focus	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We consider there to be a specific risk around income and expenditure recognition through:</p> <ul style="list-style-type: none"> <li>• Incorrect expenditure recognition to alter the Group and Council's financial position around the financial year end (cut-off).</li> <li>• Incorrect recognition applied to grants with performance conditions.</li> </ul> <p>We had previously included other income as a risk but have refined our approach for 2025/26 to recognise the material risk around income recognition is addressed through management override procedures.</p>
2. Misstatement due to fraud or error (fraud risk)	No change in risk or focus	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p>
3. Valuation of property, plant and equipment, right of use assets and investment property	Increase in risk	<p>The fair value of property, plant and equipment (PPE) and investment property represent significant balances in the Council's financial statements. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>The Council will be required to apply for the first time, the new requirements in respect of asset valuations as required by the CIPFA Code of Practice on Local Authority Accounting 2025/26. The CIPFA Bulletin 22 provides guidance surrounding the mandated quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. This change places particular focus on the appropriateness of the indices applied by the Council for each class of asset.</p> <p>The first year of implementation presents an increased risk of error in the application of indices, particularly considering limitations within existing finance systems used by the Council. Successful implementation will therefore depend on the Council adapting its rolling programme in line with the guidance and ensuring that appropriate indices are selected and applied in intervening years.</p>

Exhibit 2 (continued): Summary of significant risks identified for the audit in 2025/26

Risk/area of focus	Change from PY	Details
4. Valuation of Pension assets and liabilities	No change in risk or focus	<p>The Group and Council's net pension asset/liability is a material balance in the Group and Council financial statements.</p> <p>Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. This includes ensuring that pension assets, including those harder to value assets, are appropriately valued at the balance sheet date. The Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. CIPFA has provided guidance (Bulletin 15) on recognising a net defined benefit asset in accordance with IFRS 14 when the pension fund reports a surplus.</p> <p>The Group and Council separately recognise an unfunded pension liability. As of 31 March 2025, this totalled £235 million for the Council and £240 million for the Group. The next triennial valuation of the pension fund is required to be finalised by 31 March 2027, and any conclusion of the financial statements after this date will require consideration of the outcomes of that valuation as part of the audit.</p>
5. Pay and grading implementation	No change in risk or focus	<p>The Council has formed a pay and grading structure project (the PGS project) to implement the new pay and grading structure.</p> <p>The implementation of the new pay and grading structure has been subject to previous delays however a revised, phased implementation date of April 2027 has now been agreed.</p> <p>The revised pay and grading project timetable and progress in respect of pay modelling increase the likelihood that a quantifiable financial impact will crystallise during 2026 and this will need to be reflected within the 2025/26 financial statements. While the financial impact has not yet been fully determined, developments during 2026 may result in additional liabilities being identified that require recognition within the financial statements.</p> <p>The Council anticipates an appropriate level of backdated pay for the period between October 2023 and implementation, with the potential accounting impact dependent on the outcome of pay modelling, job evaluation and negotiations with trade unions. As certainty over the financial implications increases, judgement will be required in determining whether a provision or contingent liability should be recognised and whether related disclosures are complete and appropriate. Further judgement may be required in determining an appropriate valuation of the related liabilities.</p>

**Exhibit 3: Summary of risks of material misstatement identified for the audit in 2025/26**

Two risks of material misstatement impacting the audit of the financial statements has been identified with further details included in section [3].

Risk/area of focus	Change from PY	Details
1. Existence of property, plant and Equipment	No change in risk or focus	<p>The Council holds material infrastructure assets (2024/25: £867.4 million) as well as vehicles, plant, furniture and equipment (2024/25: £62.3 million).</p> <p>In respect of infrastructure assets, in 2021/22 local government auditors raised concerns that Accounting Code requirements were not being adhered to in respect of subsequent expenditure on infrastructure assets. Further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date. The statutory override for infrastructure assets, originally due to expire at 31 March 2025, has been extended by the Scottish Government to 31 March 2027. The extension continues to carry an expectation that councils will continue to address information deficits to enable timely adoption of future Code requirements, once a more permanent solution is determined.</p> <p>Regarding vehicles, plant, furniture and equipment, challenges were encountered in prior years in obtaining sufficient detail from the fixed asset register and underlying records to identify individual assets which could be verified. Further challenges were encountered with some records for IT related assets being held by the Council's IT provider. Due to difficulties encountered in obtaining sufficient evidence to support the ongoing existence of equipment, a judgemental impairment different of £3.4 million was identified in 2024/25.</p>
2. Valuation and completeness of Right-of-Use assets and lease liabilities	No change in risk or focus	<p>Right-of-use assets, together with lease liabilities recognised under IFRS 16, represent significant balances within the Council's financial statements. As at 31 March 2025, the Council recognised right-of-use assets of £821.5 million and lease liabilities of £797.7 million.</p> <p>Accounting for these arrangements is complex and requires significant judgement. Material judgements are required to be made by the Council in respect of future lease terms for temporary accommodation to support the homeless.</p> <p>The Council engaged specialists to support the initial implementation of IFRS 16 during 2024/25 and encountered significant delays in producing the accounting entries and associated financial statement disclosures. There is a risk that IFRS 16 related balances are not appropriately included within the financial statements.</p>

**Exhibit 4: Summary of areas of audit focus in relation to the wider scope dimensions**

Under the Code of Audit Practice, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider these risks, identified as “areas of wider scope audit focus” below, to be areas where we expect to direct most of our audit effort, based on:

- our risk assessment at the planning stage; and
- the identification of any national areas of risk within Audit Scotland’s annual planning guidance.

Any changes in this assessment will be communicated to the Finance and Audit Scrutiny Committee. We refer to these areas within Section 4 as “areas of audit focus”:

Area of focus	Details
<p>1. Financial sustainability: Development of longer-term financial strategy</p>	<p>The Council continues to face significant risks in the medium and longer term, driven by sustained financial pressures including the continued escalation of homelessness costs within the City, the financial implications of implementing the revised pay and grading structure and managing ongoing equal pay liabilities and wider external funding uncertainty. These pressures reinforce the need for a robust longer-term financial strategy to demonstrate how Council priorities will be delivered across a range of plausible funding and demand scenarios.</p> <p>The Council agreed the 2026/27 budget in February 2026, which sets out significant savings and income generation requirements to address a projected gap of £36.8 million for 2026/27. The budget relies on the successful delivery of planned savings and short-term mitigating measure agreed with the Scottish Government to manage homelessness pressures, including a one-off variation to the use of General Capital Grant in 2026/27.</p> <p>The Council's financial flexibility has reduced in recent years, with unearmarked General Fund reserves remaining below the Council’s target level and the Budget Support Fund forecast to be fully exhausted by 31 March 2026. Failure to deliver planned mitigations or to strengthen longer-term financial planning arrangements would place additional pressure on the Council’s ability to manage future budget gaps and respond to emerging financial risks</p>

Exhibit 4: Summary of areas of audit focus in relation to the wider scope dimensions

Area of focus	Details
<p>2. Financial sustainability: Pay and Grading</p>	<p>The Council has made settlement payments totalling approximately £765 million in respect of historic equal pay claims over the last five years. In order to mitigate the risk of further equal pay liabilities arising, the Council must implement a revised pay and grading structure that is equal pay compliant.</p> <p>The project is complex, with a range of inter-dependencies, including the completion of a comprehensive job evaluation exercise, PGS design, financial modelling, gender pay gap analysis and significant payroll revision. The programme governance arrangements include representation from HR, Legal, Finance, and Technical Workstreams, with participation from trade unions.</p> <p>A revised phased implementation date of April 2027 has now been agreed; however, significant risks remain in relation to the deliverability of this timetable. The Council must recognise the current risks that timelines now bring both strategically and operationally. The financial consequences of further delays will be significant and limit the Council’s ability to develop meaningful financial plans.</p>
<p>3. Vision, leadership and Governance: ICT governance</p>	<p>There continues to be a significant sector-wide risk from cyber-attacks and ICT service disruption, particularly given the increasing reliance on digital systems in the delivery of public services. On 19 June 2025, the Council was impacted by a cyber incident arising from a third-party subcontractor, which resulted in the precautionary isolation of affected servers and disruption to a range of online services for a period of approximately two months.</p> <p>Technology is also rapidly changing and will play a key role in the way the Council delivers services moving forward. Therefore, having a robust framework for ICT governance has never been more important.</p> <p>The Council is progressing a fundamental transformation of its ICT operating model through the Road to Multi-Source Strategy (R2MS), which represents a significant change in how ICT services are delivered and governed. In parallel, the Council is undertaking the replacement of its core SAP finance and HR system, a programme of critical operational importance and significant complexity given the scale of the Council and its group.</p>

**Exhibit 4 (continued): Summary of areas of audit focus in relation to the wider scope dimensions**

The Accounts Commission require auditors to assess and report on the Council’s performance in meeting its Best Value and community planning duties. These requirements include a requirement to report on an annual basis on a thematic topic prescribed by the Accounts Commission. For 2025/26, the Accounts Commission has directed auditors to report on Asset Management. We will also follow up the agreed action plan for best value findings from prior year audits.

The Council will also be subject to a Controller of Audit Best Value report in August 2026, and our Annual Audit Report will follow up on any findings from this report where appropriate.

In line with the Code of Audit Practice, there is an expectation that equalities will be advanced throughout the audit process and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. This work will be performed as part of the 2025/26 audit.

Area of focus	Details
Best Value Thematic Review: Asset Management	<p>The Accounts Commission has asked auditors to consider how the Council is responding to the current asset management challenges:</p> <ul style="list-style-type: none"> <li>• To what extent does the Council have a clear asset management strategy and plans that align with its corporate objectives, new ways of working, the changing needs of its population and net zero commitments?</li> <li>• To what extent do the Council’s governance and accountability arrangements support effective asset management?</li> <li>• To what extent does the Council have a robust approach to working with partners and communities in managing its assets?</li> </ul>



# Sector Developments

## Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

## The Scottish Budget

The Scottish Budget for 2026/27 was announced on 13 January 2026. Ahead of its publication, the Fraser of Allander Institute highlighted that UK Budget consequentials and updated tax and social security forecasts would increase overall Scottish Government funding by approximately £750 million.

Despite this increase, the Scottish Budget continues to present a challenging funding environment for local government. Analysis by the Institute for Fiscal Studies indicates that, once inflation is taken into account, local government funding increases by around 0.3% in real terms in 2026/27. Over the period covered by the multi-year Spending Review, this equates to real-terms reductions for local government averaging 2.1% per annum between 2026/27 and 2028/29.

COSLA has stated its view that while there is an increase in uncommitted revenue funding of £234 million for local government in 2026/27, this is insufficient to address the scale of cost and demand pressures facing councils, particularly within social care. COSLA has also raised concerns regarding the medium-term outlook for local government funding, highlighting the risk of local government being de-prioritised relative to other public services.

The Institute for Fiscal Studies has suggested that council tax increases of around 8% would be required in 2026/27 to maintain services at current levels. The Scottish Budget also confirmed that two additional council tax bands, based on updated property valuations, will be introduced from April 2028 for properties valued above £1 million. The associated tax rates have not yet been determined.

Scottish budget report 2026-27: [Scottish Budget 2026 to 2027 - gov.scot](https://www.gov.scot/budget)

## Local Government in Scotland: Financial Bulletin 2024/25

Audit Scotland published its latest financial bulletin on the sector on 29 January 2026. The report focuses on the 2024/25 financial performance of councils including funding, income and budget setting, as well as the financial outlook.

The report notes that Scotland's councils experienced a slight real-terms increase in total revenue funding in 2024/25, largely due to the Scottish Government baselining specific grants into the General Revenue Grant, in line with the terms of the Verity House Agreement. However, the financial environment remains challenging. Income from council tax, business rates, and fees fell in real terms, while inflation, service demand and pay pressures continued to increase costs.

Overall, councils across Scotland identified a collective budget gap of £542 million for the financial year 2024/25 and relied heavily on recurring and non-recurring savings, reserves and financial flexibilities to close these gaps. Despite achieving around 90% of planned savings, over a third of councils overspent against their revenue budgets, which the report notes is the first sector-wide overspend in six years. Capital investment reached £3.5 billion in 2024/25, but councils again underspent against their capital budgets, mainly due to capacity constraints, supply chain delays and slippage across major projects, especially in housing and school infrastructure. Reduced capital grant funding and rising construction costs meant councils relied increasingly on borrowing to support investment.

Councils' usable reserves declined for the first time in several years, falling from £4.1 billion to £3.8 billion. A large proportion of reserves (86% of General Fund balances) are already committed for specific purposes, leaving limited flexibility to manage emerging pressures. Sixteen councils needed to use reserves unexpectedly to cover overspends, and several breached their own minimum reserves policies. The report notes that this narrowing financial headroom heightens the risk of councils becoming increasingly reliant on one-off measures to meet recurring budget pressures.

Looking ahead, councils face significant and growing risks to their financial sustainability. They forecast a collective budget gap of £647 million for 2025/26 and anticipate continued strain from inflation, workforce pressures, rising service demand (particularly in social care and homelessness), increasing borrowing costs and uncertainty over future funding settlements and council tax decisions. The report stresses the urgent need for councils to accelerate service transformation, strengthen medium- and long-term financial planning, improve transparency in financial reporting and ensure elected members have clear sight of sustainability risks as Scotland's local government sector enters a period of sustained financial pressure.

Audit Scotland's Financial Bulletin is accompanied by a supplement checklist for elected members to support scrutiny in assessing councils' financial sustainability: [Elected member checklist](#)

## Annual Assurance and Risk Report: A review of 2024/25 local government audits in Scotland

In March 2026, the Accounts Commission published its Annual Assurance and Risks Report, drawing together findings from 2024/25 council audits across Scotland. The report highlighted persistent and systemic financial sustainability challenges, with all councils forecasting significant medium-term budget gaps, continued reliance on reserves and other one-off measures and declining usable reserve balances. Auditors consistently reported concerns about the scale and deliverability of savings required, noting that incremental efficiencies will be insufficient to address the financial challenges facing the sector.

While auditors generally concluded that councils retain sound financial management arrangements and suitably skilled teams, recurring areas of audit concern were identified. These included delays in financial reporting and audit completion impacting accountability, widespread material adjustments in complex accounting areas such as Property, Plant and Equipment valuations, IFRS 16 leases and pension accounting and weaknesses in IT assurance where councils rely heavily on externally hosted systems without formal assurance. The Accounts Commission emphasised that councils must learn from these findings, strengthen medium- and longer-term financial planning, improve governance and assurance arrangements, and ensure that transformation programmes, workforce planning and digital capability are sufficiently robust to support sustainable service delivery.

Audit Scotland's annual assurance and risk report: A review of local government audits in Scotland: [Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland | Audit Scotland](#)



# Financial Statements: Our Approach and Assessment of Significant Risks

## Introduction

The publication of the annual financial statements allow the Council and its Group to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom (“the Code”).

## Risk Assessment and Approach

We are responsible for conducting an audit of the Council and its Group’s financial statements. We provide an opinion as to whether they:

- Give a true and fair view of the state of affairs of the Council and its Group as at 31 March 2026 and of the income and expenditure of the Council and its Group for the year then ended;
- Have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2025/26 Code; and
- Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the Council and its Group along with its financial statements.

## Other Statutory Information

The management commentary and narrative reporting within the financial statements continues to be an area of increased scrutiny as a result of rising stakeholder expectations. Guidance issued by Audit Scotland, require auditors to place additional focus on areas of compliance, such as climate change reporting, and the drive to streamline and simplify local government financial statements.

## Audit Approach

We will continue to follow a substantive approach to the audit in 2025/26 as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. During our planning procedures, we determine which accounts, disclosures and relevant assertions could contain risks of material misstatement.

Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the Group and Council financial statements;
- Reading other information contained in the financial statements to form assessment, including that the annual report is fair, balanced and understandable; and
- Ensuring that reporting to the Finance and Audit Scrutiny Committee appropriately addresses matters communicated by us and whether it is materially inconsistent with our understanding and the financial statements.

## Confirmation of Independence

Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We rigorously maintain auditor independence. Further information is available in Appendix B, where we confirm that our procedures are complete and that we are not aware of any such relationships relating to the audit of the Council.

## Materiality

For 2025/26, Group materiality has been set at £32.8 million (2024/25: £32 million) with Council materiality at £31.6 million (2024/25: £30 million). This represents 1% of the Group and Council's audited 2024/25 gross expenditure on provision of services, excluding IJB expenditure (Exhibit [5]). This level remains at the lower end of our materiality range, recognising the complexity and risk of the Group and Council audits.

Our performance materiality is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality to an acceptably low level. For the Group and Council this is set at 75% of overall materiality (2024/25: 75%). This level remains consistent with the prior year due to:

- Misstatements identified in 2024/25 remaining consistent with our expectations and continued improvement in the quality of financial statement working papers;
- Specific procedures performed at lower materiality thresholds over significant risks, risks of material misstatement and other areas of audit focus.
- A reduction in new audit recommendations being raised and progress in completing prior period audit recommendations. We perform additional procedures over areas associated with management recommendations.

With regards to the reporting level for 2025/26 misstatements, we have proposed retaining the threshold of 5% of our overall materiality giving thresholds for Group of £1.6 million (2024/25: £1.6 million) and Council of £1.5 million (2024/25: £1.5 million). We request that the Finance and Audit Scrutiny Committee specifically consider this and confirms its understanding of, and agreement to this reporting level.

Materiality will be reassessed throughout the audit process and will be communicated to the Finance and Audit Scrutiny Committee within our Annual Audit Report.

Our evaluation of materiality requires professional judgement and so considers qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix F.

## Exhibit 5: Our Assessment of Materiality in 2025/26

Element	Explanation	Group Value	Council Value
Overall Materiality	<p>The amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.</p> <p>This represents 1% (2024/25: 1%) of the Group and Council's audited 2024/25 Gross Expenditure excluding IJB contributions. In 2024/25 this was set at £32 million for Group and £30 million for Council.</p>	£32.8 million	£31.6 million
Performance Materiality	<p>Materiality at an individual account balance, which is set to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality to an acceptably low level.</p> <p>We have set this at 75% of overall materiality (2024/25: 75%).</p>	£24.6 million	£23.7 million
Reporting Level	<p>The amount below which misstatements, whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.</p> <p>This is set at 5% of overall materiality, in line with 2024/5 (Group: £1.6 million and Council: £1.5 million).</p>	£1.6 million	£1.5 million

## Specific Materiality

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements.

Accordingly, we determine that it is appropriate to use lower levels of materiality for some areas of the financial statements.

- Remuneration report - given the sensitivity around the disclosure of senior employees and councillors' remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures. This specifically considers any matter as material where it would alter the banding for a senior employee or senior councillor where a remuneration amount is disclosed.
- Related party transactions - which are considered material when they are material to either party in the transaction. We do not apply a specific materiality but consider each transaction individually.
- Sundry trusts and Common good fund - the Council and Group financial statements include specific statements in respect of the common good fund and Sundry trusts. We consider these disclosures to be more sensitive due to the nature of the funds and therefore apply a lower materiality threshold to our audit consideration of these statements. For the sundry trusts, we have applied 25% of our performance materiality (£5.925 million) and common good we have applied a materiality threshold of 5% of our performance materiality (£1.185 million).

## Group Audit

The Council prepares its annual report and financial statements on a group basis.

ISA (UK) 600 (revised September 2022) special considerations – Audits of group financial statements (including the work of component auditors), the auditing standard, prescribed group scoping to be a risk-based approach with a focus on account level scoping. This is further described in Appendix G.

The Glasgow City Integration Joint Board (IJB) is a joint venture and consolidated in accordance with the requirements of the Accounting Code. We have been appointed as auditor to Glasgow City Integration Joint Board and will report separately on our audit of that entity.

Through discussions with management, we have agreed to include the two City Building entities within the scope of the group audit for the first time during our appointment. In previous years, these entities were not scoped into the group audit, contributing to a modified audit opinion on the group financial statements, due to delays in the City Building entities' financial statements following a whistleblowing investigation in 2022. Our approach will include issuing group instructions for 2025/26. Our work will include consideration of the impact of the modified audit opinion on comparatives and opening balances in respect of these entities.

## Group Audit Scope

The scoping of the group audit addresses the risks of material misstatement in the Council's financial statements, including those noted under 'Audit risks' and 'Other areas of audit focus'. For the year-end audit, aligned with ISA (UK) 600 (Revised), we have tailored our audit scope to respond to these identified risks.

In determining the scope of our audit, we consider, on an iterative basis the residual amount of balances and accounts of the group financial statements which are not included with the group scope. These amounts may comprise balances at multiple components where the balances may be material in aggregate. We perform risk assessment procedures to determine whether there is a risk of material misstatement within those amounts, and our planned group audit scope is inclusive of our audit response to such residual risks of material misstatement, when applicable. We update and perform further risk assessment procedures as necessary to conclude our assessment.

We have set out the specific assigned scopes for each component within Appendix G. The allocation of scope means that the following coverage is obtained:

**Exhibit 6: Group scope coverage based on the 2024/25 Group Financial Statements**

Scope	Expenditure on Provision of Services (% Coverage)	Total assets (% Coverage)
Full Scope (Audited by EY)	93.4%	76.1%
Specific Scope	6.4%	23.6%
No Scope assigned	0.2%	0.3%
Total	100%	100%



# Our Response to Significant Risks

## Introduction

Auditing standards require us to make communications to those charged with governance throughout the audit. At Glasgow City Council, we have agreed that these communications will be to the Finance and Audit Scrutiny Committee. The financial statements and our Annual Audit Report will also be reported to the Council.

One of the key purposes of our Annual Audit Plan is to communicate our assessment of the risk of material misstatement in the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

We set out, in the following sections, the significant risks (including fraud risks denoted by \*) that we have identified for the current year audit, along with the rationale and expected audit approach. In 2025/26 we have identified five significant risks:

- Risk of fraud in revenue and expenditure recognition\*;
- Misstatement due to fraud or error\*;
- Valuation of property, plant and equipment and investment property;
- Valuation of pension assets and liabilities; and
- Pay and grading implementation;

The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit. We will provide an update to the Finance and Audit Scrutiny Committee if our assessment changes significantly during the audit process.

Under the Code of Audit Practice, we are required to report on key audit matters as part of our annual reporting. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

Key audit matters have been annotated as such throughout this section and will be kept under review throughout the audit and the final position reported through our Annual Audit Report.

## 1. Risk of fraud in revenue and expenditure recognition\*

### Financial statement impact

The relevant Council and Group 2024/25 account balances in the audited financial statements were:

- Other grants and capital grants: £0.47 billion (Group: £0.47 billion)
- Other expenditure: £2.4 billion (Group: £2.4 billion)
- Related creditor balances: £0.37 billion (Group: £0.48 billion)

### What is the risk?

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider there to be a specific risk around income and expenditure recognition through:

- Incorrect expenditure cut-off recognition to alter the Group and Council's financial position around the financial year end; and
- Incorrect recognition applied to grants income with performance conditions.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account.

Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in the respect of Council tax, non-domestic rate income and other income. We had previously included other income as a risk but have refined our approach for 2025/26 to recognise the material risk around income recognition is addressed through management override procedures. With regards to expenditure, we have rebutted the risk of improper recognition of payroll, depreciation and financing and investment expenditure.

We consider this risk to be relevant to the Group and the Council as a single entity.

### What work will we perform?

We will take a fully substantive approach to the testing the related accounts. We will:

- Inquire of management and those charged with governance about risks of fraud and the controls to address those risks;
- Review and challenge management on any accounting estimates in respect of income and expenditure recognition for evidence of bias;
- Review and test expenditure cut-off at the period end date to a lower materiality;
- Test an extended sample of grant income to ensure it satisfies recognition criteria tests; and
- Assess and challenge manual adjustments/ journal entries by management around the year end for evidence of management bias and evaluation of business rationale and supporting evidence.

## 2. Misstatement due to fraud or error\*

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We consider this risk to be relevant to the Group and the Council as a single entity.

### What work will we perform?

We will:

- Inquire of management about risks of fraud and the controls to address those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls designed to address the risk of fraud; and
- Consider the basis of any transfers between reserves.
- We will perform mandatory procedures regardless of specifically identified fraud risks, including:
  - Performing procedures to address the identified risk of fraud in revenue and expenditure recognition as set out on page [22];
  - In line with our risk assessment, testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. This includes setting criteria for journals that we test including those that can be subject to management manipulation or impact Council performance;
  - Assess accounting estimates for evidence of management bias; and
  - Evaluate the business rationale for significant unusual transactions.

We will use our data analytics capabilities to assist with our work.

### 3. Valuation of Property, Plant & Equipment and Investment Property

#### Financial statement impact

Within the audited 2024/25 financial statements, the Council Group held the following balances:

- £4.2 billion of property, plant and equipment with £2.4 billion relating to land and buildings and £0.82 billion relating to right of use assets;
- £226 million of investment property.

#### What is the risk?

The fair value of property, plant and equipment (PPE) and investment property represent significant balances in the Group and Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate year-end balances recorded in the balance sheet.

The Council Group engages valuers within City Property (Glasgow) Limited Liability Partnership to value the Group and Council's estate in line with their asset valuation programme.

The Council will be required to apply for the first time, the new requirements in respect of asset valuations as required by the CIPFA Code of Practice on Local Authority Accounting 2025/26. The CIPFA Bulletin 22 provides guidance surrounding the mandated quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. This change places particular focus on the appropriateness of the indices applied by the Council.

The first year of implementation presents an increased risk of error in the application of indices, particularly considering limitations within existing finance systems used by the Council. Successful implementation will therefore depend on the Council adapting its rolling programme in line with the guidance and ensuring that appropriate indices are selected and applied in intervening years.

We consider this risk to be relevant to the Group and the Council as a single entity.

#### What work will we perform?

For property, plant and equipment and investment property we will:

- Obtain and evaluate management's assessment and planned approach to implementing updated indexation guidance;
- Assess management's key judgements in relation to indexation;
- Test the accuracy of indexation calculations and their application to the asset population;
- Review and appraise the work performed by the Group and Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Involve EY internal specialists to challenge the work performed by the Council's valuers, where appropriate;

### 3. Valuation of Property, Plant & Equipment and Investment Property (cont.)

- Assess management's approach to the valuation of right of use assets and consider whether it complies with Code requirements;
- Assess any changes to useful economic lives;
- Test accounting entries have been correctly processed in the financial statements; and
- Ensure investment property is correctly classified within the Group financial statements and appropriately valued.

## 4. Valuation of Pension Assets and Liabilities

### Financial statement impact

The Group and Council's net pension asset, measured as the sum of the long-term payments due to members as they retire against the Group and Council's share of the Strathclyde Pension Fund investments, is a balance which requires significant estimation and judgement.

At 31 March 2025 the asset recognised by the Council was nil and the Group was £273 million (2023/24: Council nil and Group £198 million).

At 31 March 2025 the Group and Council also recognises an unfunded pension liability totalling £235 million for the Council and £240 million for the Group (2023/24: Council £271 million and Group £278 million).

### What is the risk?

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The Group and Council engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Based on the triennial valuation of the Strathclyde Pension Fund as at 31 March 2023, we anticipate that the scheme will remain in a surplus position. CIPFA previously provided guidance (Bulletin 15) on recognising a net defined benefit asset in accordance with IFRS 14 when the pension fund reports a surplus. Where an asset ceiling is applied, the bulletin highlights requirements in the accounting code which require disclosure of the following:

- An explanation as to why the pension surplus reported under IAS 19 is not fully realisable and what 'realisable' means in this context; and
- The basis used to determine the amount of the economic benefit available.

Membership of the pension fund includes admitted and scheduled bodies. The Council is a scheduled body whereas the Council's subsidiary companies and joint venture companies who are members of the scheme are admitted bodies. The nature of membership influences the rules under which each entity participates in the scheme and can therefore change the basis for which a pension asset can be recognised, adding an additional complexity to Group pension accounting arrangements.

With the exception of Strathclyde Partnership for Transport, which is classified as a scheduled body, the remaining group entities are admitted bodies of the Strathclyde Pension Fund. Consequently, in accounting for the group pension position, appropriate consolidation adjustments are required to recognise the pension asset attributable to admitted body subsidiaries within the group financial statements.

There also remains a risk that, upon crystallisation of the pay and grading outcome, the valuation of pension assets and liabilities may be impacted, as changes to pay structures and any backdated pay could affect pensionable pay assumptions and the measurement of the defined benefit obligation.

## 4. Valuation of Pension Assets and Liabilities (cont.)

### What work will we perform?

For pension assets and liabilities, we will:

- Liaise with the auditor of Strathclyde Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions;
- Engage our actuarial specialists to assess the work of the actuary (Hyman Robertson);
- Assess the work of PWC, appointed to consider actuarial assumptions used at the year-end for all local government sector bodies;
- Review and test the accounting entries and disclosures made within the Group and Council's financial statements in relation to IAS19;
- Require IAS19 reports which reflect actual rather than estimated asset returns to ensure that there have been no material movement in the value of pension fund assets;
- Consider the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities;
- Request that the Group and Council obtain an asset ceiling report from its actuaries. Our actuarial specialists will review the asset ceiling report to satisfy themselves that it is materially correct; and
- Review the IAS 19 reports and asset ceiling reports for material group entities and in conjunction with component auditor instructions, ensure that pension assets and liabilities are appropriately recorded within the Group financial statements.
- Evaluate management's assessment of the impact of the pay and grading project on pensionable pay and, where the impact has crystallised, assess whether this has been appropriately reflected in the IAS 19 valuation of pension assets and liabilities, including any backdated pay.

## 5. Pay and grading implementation

### Financial statement impact

The financial statement impact arising from the implementation of the pay and grading project has not yet been fully quantified. However, the revised implementation timetable is expected to result in a quantifiable impact during the 2025/26 financial statement audit cycle. The anticipated accounting impact is the recognition of a material provision and/or enhanced disclosures, including the disclosure of contingent liabilities, within the 2025/26 financial statements, subject to the outcome of pay modelling, job evaluation and negotiations with trade unions.

### What is the risk?

The Council has formed a pay and grading structure project (the PGS project) to implement the new pay and grading structure.

The implementation of the new pay and grading structure has been subject to previous delays however a revised, phased implementation date of April 2027 has now been agreed.

The revised pay and grading project timetable and progress in respect of pay modelling increase the likelihood that a quantifiable financial impact will crystallise during 2026 and this will need to be reflected within the 2025/26 financial statements. While the financial impact has not yet been fully determined, developments during 2026 may result in additional liabilities being identified that require recognition within the financial statements.

The Council anticipates an appropriate level of backdated pay for the period between October 2023 and implementation, with the potential accounting impact dependent on the outcome of pay modelling, job evaluation and negotiations with trade unions. As certainty over the financial implications increases, judgement will be required in determining whether a provision or contingent liability should be recognised and whether related disclosures are complete and appropriate. Further judgement may be required in determining an appropriate valuation of the related liabilities.

We consider this risk to be relevant to the Group and the Council as a single entity.

### What work will we perform?

For pay and grading implementation, we will:

- Evaluate management's assessment of the accounting implications of the pay and grading project;
- Assess the completeness and appropriateness of financial statement disclosures;
- Review supporting evidence underlying management's assessment; and
- Consider events occurring up to the date of signing of the financial statements.

## Use of Specialists

When auditing key judgements, such as the valuation of property, plant and equipment or defined benefit pension scheme assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## Risk of Material Misstatement

We have identified other areas of the audit, that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that we will include in our annual audit report.

Area of focus	Details
<p>Existence of property, plant and Equipment Infrastructure assets</p> <p>The Council holds material infrastructure assets (2024/25: £867.4 million) as well as vehicles, plant, furniture and equipment (2024/25: £62.3 million).</p> <p>In respect of infrastructure assets, in 2021/22 local government auditors raised concerns that Accounting Code requirements were not being adhered to in respect of subsequent expenditure on infrastructure assets. Further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date. The statutory override for infrastructure assets, originally due to expire at 31 March 2025, has been extended by the Scottish Government to 31 March 2027. The extension continues to carry an expectation that councils will continue to address information deficits to enable timely adoption of future Code requirements, once a more permanent solution is determined.</p> <p>Vehicles, plant, furniture and equipment</p> <p>Regarding vehicles, plant, furniture and equipment, challenges were encountered in prior years in obtaining sufficient detail from the fixed asset register and underlying records to identify individual assets which could be verified. Further challenges were encountered with some records for IT related assets being held by the Council's IT provider. Due to difficulties encountered in obtaining sufficient evidence to support the ongoing existence of equipment, a judgemental impairment different of £3.4 million was identified in 2024/25.</p> <p>We consider this risk to be relevant to the Group and the Council as a single entity.</p>	<p>In response to this risk, we will:</p> <ul style="list-style-type: none"> <li>• Test a sample of infrastructure assets in the asset register to determine their existence as at 31 March 2026;</li> <li>• Review the depreciation policy for infrastructure assets and ensure it remains appropriate and in line with CIPFA guidance;</li> <li>• Assess whether infrastructure asset additions for 2025/26 were recorded in sufficient detail to enable verification of the underlying physical asset;</li> <li>• Test a sample of vehicles, plant, furniture and equipment in the asset register to determine their existence as at 31 March 2026;</li> <li>• Review the depreciation policy for vehicles, plant, furniture and equipment and ensure it remains appropriate; and</li> <li>• Conduct a follow up of prior year recommendation in respect of Council asset existence checks.</li> </ul>

## Risk of Material Misstatement

We have identified other areas of the audit, that have not been classified as significant risks but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that we will include in our annual audit report.

Area of focus	Details
<p><b>Valuation and completeness of Right-of-Use assets and lease liabilities</b></p> <p>Right-of-use assets, together with lease liabilities recognised under IFRS 16, represent significant balances within the Council's financial statements. As at 31 March 2025, the Council recognised right-of-use assets of £821.5 million and lease liabilities of £797.7 million.</p> <p>Accounting for these arrangements is complex and requires significant judgement. Material judgements are required to be made by the Council in respect of future lease terms for temporary accommodation to support the homeless.</p> <p>The Council engaged specialists to support the initial implementation of IFRS 16 during 2024/25 and encountered significant delays in producing the accounting entries and associated financial statement disclosures. There is a risk that IFRS 16 related balances are not appropriately included within the financial statements.</p> <p>We consider this risk to be relevant to the Group and the Council as a single entity.</p>	<p>In response to this risk, we will:</p> <ul style="list-style-type: none"> <li>• Consider the Council and Group's approach to capturing additional information about leases, both new and existing, especially regarding future minimum lease payments and cost information;</li> <li>• Review lease agreements to determine the completeness of the information used to prepare the required disclosures;</li> <li>• Review the IFRS 16 model output from the accounting software to ascertain that the accounting for leases identified is accurate and complete;</li> <li>• Assess whether there is any indication of leases which have not been captured within the IFRS 16 assessment, through our expenditure testing; and</li> <li>• Review minutes to determine whether there are other leases entered into by the council not accounted for to ascertain completeness of the IFRS 16 assessment</li> </ul>

## Going Concern

### Audit Requirements

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Group and Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

Under ISA (UK) 570, we are required to undertake challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of substantial financial pressures facing the Group and Council, including the cost-of-living crisis, inflationary pressures, and other demand pressures, we place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Group, Council and its financial sustainability.

### What work will we perform?

Our work on going concern requires us to:

- Challenge management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- Challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtain and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained throughout our audit;
- Consider and challenge management expectations in relation to the ability to respond to future budget gaps, and/or the maintenance of general reserves;
- Conduct a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern;
- Necessary consideration regarding the appropriateness of financial statement disclosures around going concern; and
- Evaluate the Council's ability to provide financial support to their subsidiaries through letters of support.



# Best Value and Wider Scope

## Introduction

In June 2021, Audit Scotland and the Accounts Commission published a revised Code of Audit Practice. This establishes the expectations for public sector auditors in Scotland for the term of the current appointment.

## Risk Assessment and Approach

The Code sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland:

- Financial management;
- Financial sustainability;
- Vision, Leadership and Governance; and
- Use of resources to improve outcomes.

The Code of Audit Practice requires that, in addition to financial statement significant risks, auditors are required to identify significant risks within the wider scope dimensions as part of our planning risk assessment. We consider these risks, identified as “areas of wider scope audit focus” below, to be areas where we expect to direct most of our audit effort, based on:

- Our risk assessment at the planning stage, including consideration of Audit Scotland’s Code of Audit Practice Supplementary Guidance (February 2023);
- Our knowledge of the Council from prior year audits, including Best Value work; and
- The identification of any national areas of risk within Audit Scotland’s annual planning guidance.

Any changes in this assessment will be communicated to the Finance and Audit Scrutiny Committee.

Our wider scope audit work, including follow up of prior year findings, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

## Best Value

Under the Code, the Accounts Commission require auditors to assess and report on the Council's performance in meeting its Best Value and community planning duties.

While our risk assessment will be used to determine the requirement for any additional audit work covering the seven Best Value characteristics, there is an expectation that equalities will be advanced through the audit process, and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. We plan to conduct this work in 2025/26.

In addition, on an annual basis, we are required to prepare a separate report on thematic topics prescribed by the Accounts Commission. For 2025/26, the area of focus is on the effectiveness of asset management. Conclusions and judgements on the thematic review will be reported in a separate report to the Finance and Audit Scrutiny Committee in September 2026 and summarised in the Annual Audit Report.

The Council will also be subject to a Controller of Audit Best Value report in August 2026, and our annual audit report will follow up on any findings from this report where appropriate.

## Local Area Network

As part of the Shared Risk Assessment process, which facilitates the sharing of intelligence and scrutiny risks through local government, the Council has nominated contacts within each scrutiny body with knowledge and experience of activity in the area that helps to inform our audit risk assessment and planning for procedures to address these risks.

We have engaged directly with each of the scrutiny bodies through a Local Area Network to discuss performance and scrutiny risks and to inform our assessment of the Council. While no additional risks were identified from these discussions at this point, we will continue to engage with scrutiny bodies and consider opportunities for collaboration as our audit work progresses during 2025/26.

## Financial Sustainability



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

Our 2024/25 Annual Audit Report highlighted the significant risks facing the Council financially in the medium and longer term. We highlighted the need for a robust longer-term financial strategy to demonstrate how Council priorities will be achieved across a range of scenarios.

The Council agreed the 2026/27 budget in February 2026. This sets out significant saving and income generation requirements to meet a projected gap of £36.8 million for 2026/27.

In setting the 2026/27 budget, the Council has not assumed the use of general reserves to achieve balance. Instead, the budget relies on a combination of approved savings, technical adjustments, council tax assumptions and short-term mitigating measures agreed with the Scottish Government to manage significant financial pressures, most notably those arising from homelessness. This approach places continued reliance on the successful delivery of planned savings and external funding assumptions.

In addition to these pressures, the Council continues to face significant medium to long-term financial risk arising from the implementation of its revised pay and grading structure and the ongoing management of equal pay liabilities, where further delays could have material financial consequences.

The Budget Support Fund, which was previously used to support the delivery of the Council's budget, is forecast to be fully extinguished during 2025/26 as a result of its use to fund homelessness pressures. As a consequence, no Budget Support Fund balance will be available to support the 2026/27 budget, increasing the Council's exposure to in-year financial pressures, reducing flexibility in responding to adverse budget variance, and limiting its capacity to invest in preventative or invest-to-save initiatives going forward.

As a short-term mitigation to manage homelessness pressures in 2026/27, the budget assumes the application of a one-off variation to the use of General Capital Grant. This variation allows the grant to be used as a contribution to the Capital Fund in 2025/26, from which it is applied in-year to repay the principal element of borrowing costs. This generates a revenue underspend in 2025/26 that is fully utilised in-year to provide financial capacity to meet homelessness pressures. While this measure provides temporary budgetary relief, it increases longer-term financing costs and reduces the Council's capacity to support future capital investment.

## Exhibit 7: Financial Sustainability Areas of Focus

<p>Development of a longer-term financial strategy</p>	<p>The Council continues to face significant risks in the medium and longer term, driven by sustained financial pressures including the continued escalation of homelessness costs within the City, the financial implications of the new Pay and Grading scheme and the wider external funding uncertainty. There remains a need for a robust longer-term financial strategy to demonstrate how Council priorities will be delivered across a range of plausible funding and demand scenarios.</p> <p>The Council agreed the 2026/27 budget in February 2026. This sets out significant saving and income generation requirements to meet a projected gap of £36.8 million for 2026/27, highlighting the scale of the financial challenge facing the Council beyond the current financial year. A short-term measure in 2026/27 has been agreed to support the Council in meeting homelessness costs where a variation to the conditions on the use of the General Capital Grant have been agreed with Scottish Government.</p> <p>The Council's reserves position weakened in 2024/25, with unearmarked General Fund reserves remaining below the Council's target level and the Budget Support Fund, which has provided a key source of financial flexibility in recent years, forecast to be fully exhausted by 31 March 2026. Failure to deliver planned mitigations or to strengthen longer-term financial planning arrangements would place additional pressure on the Council's ability to manage future budget gaps.</p>
<p>Pay and Grading</p>	<p>The Council has made settlement payments totalling approximately £765 million in respect of historic equal pay claims over the last five years. In order to mitigate the risk of further equal pay liabilities arising, the Council must implement a revised pay and grading structure that is equal pay compliant.</p> <p>The project is complex, with a range of inter-dependencies, including the completion of a comprehensive job evaluation exercise, PGS design, financial modelling, gender pay gap analysis and significant payroll revision. The programme governance arrangements include representation from HR, Legal, Finance, and Technical Workstreams, with participation from trade unions.</p> <p>A revised phased implementation date of April 2027 has now been agreed; however, significant risks remain in relation to the deliverability of this timetable. The Council now faces increased strategic and operational risks arising from the extended implementation period. The financial consequences of further delays are likely to be significant and would continue to limit the Council's ability to develop meaningful financial plans.</p>

## Financial Sustainability (cont.)

### Our Response

We have identified two wider scope area of audit focus in Exhibit [7] in respect of financial sustainability. Our assessment of the Council's financial sustainability arrangements, will focus on:

- A review of the Council's updated financial forecasts, including the risk assessment and delivery of longer-term savings and income generation options, along with the impact on the general reserves position;
- Assessing work performed by the Council to develop a medium to long term financial strategy;
- Assessing the use of the capital grant flexibility;
- Consideration of the progress made in implementing a new pay and grading scheme; and
- Assessing the link between the financial and other strategic and operational plans.

## Financial Management



Financial management involves having sound budgetary processes, a clear understanding of the financial environment, and effective internal controls. Audited bodies require arrangements that support strong financial management culture and accountability, including mechanisms to prevent and detect fraud, error and other irregularities, bribery and corruption. Auditors consider whether the body has effective arrangements in place to secure sound financial management.

Our 2024/25 Annual Audit Report highlighted that the Council incurred a net overspend of £45.7 million in service expenditure, the highest overspend incurred by the Council in the last 6 years. The Council has been able to demonstrate during 2025/26, improved control of budget overspends following significant work undertaken as part of the 2025/26 budget process. The period 12 budget monitoring report for 2025/26 shows an underspend of £1.8 million against the budgeted position.

Within the 2024/25 Annual Governance Statement, the Council concluded that reasonable assurance could be placed on the system of internal control in the year for the first time since 2020/21.

The Council's finance team has continued to demonstrate resilience during 2025/26, managing a complex financial environment alongside ongoing staff turnover, increasing financial reporting complexity, preparation for new system implementations, and the financial and operational demands associated with the implementation of equal pay. The sufficiency of financial management capacity will remain an important consideration for the 2025/26 audit, given the scale of future savings requirements, transformation activity and demand-led pressures facing the Council.

### Our Response

We have not identified any specific areas of wider scope focus and risk in relation to financial management. Our assessment of the Council's arrangements, will focus on:

- The assessment of arrangements to ensure systems of internal control are operating effectively including the follow up of prior year audit recommendations;
- Financial monitoring arrangements, including clarity about any changes to budgets and forecasts during the year;
- Ongoing consideration of the Council's financial team capacity;
- The Council's participation and progress in the National Fraud Initiative and other counter fraud arrangements; and
- The risk assessment and achievement of savings against plans (linked to our work on financial sustainability).

## Vision, Leadership and Governance



The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

The Council has set out its vision for the City within the Strategic Plan 2022-27. Appropriate governance arrangements have been established to monitor and scrutinise key policies and risks.

The Council concluded that reasonable assurance could be placed on the systems of internal control in the year for the first time since 2020/21 within the Annual Governance Statement. Three significant matters in respect of the Council Group continue to be reported on and within our 2024/25 Annual Audit Report, we noted that there is scope for further enhancement of scrutiny arrangements of Group members. There has been improvements in respect of the City Building entities including the timeliness of conclusion of the financial statement audits.

The Council continues to manage a number of large-scale, complex and high-risk programmes, including the Road to Multi-Source (R2MS) project, SAP replacement and implementation of the new pay and grading structure. The scale, inter-dependency and legal and procurement risks associated with these programmes place considerable demands on leadership capacity and governance arrangements. In particular, timely delivery of pay and grading remains critical, as any delay has implications for the SAP replacement programme and exposes the Council to additional financial and operational risk.

### Exhibit 8: Vision, Leadership and Governance Areas of Focus

<p>ICT governance</p>	<p>There continues to be a significant sector-wide risk from cyber-attacks and ICT service disruption, particularly given the increasing reliance on digital systems in the delivery of public services. On 19 June 2025, the Council was impacted by a cyber incident arising from a third-party subcontractor, which resulted in the precautionary isolation of affected servers and disruption to a range of online services for a period of approximately two months.</p> <p>Technology is also rapidly changing and will play a key role in the way the Council delivers services moving forward. Therefore, having a robust framework for ICT governance has never been more important.</p> <p>The Council is progressing a fundamental transformation of its ICT operating model through the Road to Multi-Source Strategy (R2MS), which represents a significant change in how ICT services are delivered and governed. In parallel, the Council is undertaking the replacement of its core SAP finance and HR system, a programme of critical operational importance and significant complexity given the scale of the Council and its group.</p>
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## Our Response

We have identified one wider scope areas of audit focus in Exhibit [8] on page [39], in respect of vision, leadership and governance. Our assessment of the Council's governance arrangements, will focus on:

- Consideration of the disclosures within the annual governance statement;
- Review of the coverage of the 2025/26 internal audit arrangements, including any significant findings and the work done to address issues identified;
- Consideration of the Council's progress in addressing historic ICT related internal audit actions
- Consideration of the governance framework established for the Road to Multi-Source (R2MS) and SAP replacement projects;
- Review of the Council's governance arrangements for group entities including ALEOs; and
- Review of the progress made by the Council in addressing the governance findings in respect of exit arrangements arising from prior year audits including the Accounts Commission's Section 102 report findings.

## Use of Resources



The Council's approach to demonstrating economy, efficiency, and effectiveness through the use of resources and reporting outcomes.

The Council has a mission-based Strategic Plan 2022-27, outlining four "Grand Challenges" facing the city throughout the period and beyond. In 2024/25, we noted that the Council hoped to introduce a Performance Dashboard to support member scrutiny but system limitations have meant that this has not been progressed. The Council intends to use the work ongoing on the performance management framework for the community planning partnership to inform approach in respect of the Council's internal performance reporting. In our view, the significant number of actions identified to respond to each of the Grand Challenges makes an overall assessment of progress and outcomes difficult for both elected member scrutiny, and public performance reporting.

We noted that an annual performance report for 2023/24 was produced for the first time. The content of the annual performance report focuses on the positive developments that have been achieved since the adoption of the Strategic Plan, rather than the balanced reporting expected within the Best Value guidance. We were unable to evaluate progress in respect of the annual performance report due to it being published in April 2026 and recommended that the Council reviews the timetable for preparation and publication for future years.

The Council's Operational Performance and Delivery Scrutiny Committee (OPDSC) continues to oversee the development of a Performance Manual and Dashboard to allow scrutiny of each area of the Strategic Plan. In addition, the committee continues to scrutinise one of the Grand Challenges, and progress against the relevant missions and commitments at each meeting.

In May 2025, the OPDSC considered the results of the 2023/24 Local Government Benchmarking Framework exercise. This presents a suite of measures of performance, comparing the Council's outcomes to comparators across Scotland. The Council's scrutiny arrangements include exception reporting on areas where performance is in the lowest quartile nationally.

### Our Response

Our assessment of the Council's arrangements in 2025/26 will focus on:

- Performance reporting against the Strategic plan;
- Public performance reporting arrangements;
- Progress towards the Council's Climate Change ambitions; and
- The effectiveness of performance scrutiny arrangements.

We will also review the Council's arrangements for considering national reports, including evaluating the findings and implementing recommendations, such as Local Government overview reports from the Accounts Commission.

## Best Value

The Accounts Commission requires the Controller of Audit (COA) to report to the Accounts Commission on each Council at least once over the five-year audit appointment on the Council's performance on its Best Value duty. This enables the Accounts Commission to make findings for improvement where appropriate.

A programme of Controller of Audit reports will be in place to cover all 32 Councils, starting in October 2023 and concluding by August 2027. The Council is subject to this report in August 2026.

Under the revised Code of Audit Practice, Best Value assurance reporting is fully integrated with local audit arrangements.

Over the course of our five-year appointment, we will consider each of the Best Value themes (including leadership, partnerships, working with communities, sustainability and fairness and equality) as part of our annual work. While our risk assessment will be used to determine the requirement for any additional audit work covering the seven Best Value characteristics, there is an expectation that equalities will be advanced through the audit process, and that we will therefore carry out work on the Fairness and Equality characteristic at least once during the audit appointment. We plan to conduct this work in 2025/26. In addition, on an annual basis, the Accounts Commission will identify areas of risk where it requires thematic audit work to be carried out in Councils. As we outline in Exhibit 9, below, in 2024/25, the thematic work will consider asset management.

## Our Response

Our assessment of the Council's arrangements in 2025/26 will focus on:

- Reporting our findings against the Accounts Commission's thematic audit requirements.
- Follow up of prior year recommendations; and
- Use of our wider scope audit findings to continue to inform our Best Value risk assessment.

### Exhibit 9: Best Value Areas of Audit Focus

<p>Asset management: How well is the Council managing assets to achieve Corporate objectives and respond to challenges around financial sustainability and climate change?</p>	<p>Scope of Our Consideration:</p> <ul style="list-style-type: none"><li>• To what extent does the Council have a clear asset management strategy and plans that align with its corporate objectives, new ways of working, the changing needs of its population and net zero commitments?</li><li>• To what extent do the Council's governance and accountability arrangements support effective asset management?</li><li>• To what extent does the Council have a robust approach to working with partners and communities in managing its assets?</li></ul>
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# Appendices

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Code of audit practice:  
Responsibilities

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# Code of audit practice: Responsibilities

## Audited body responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

### Corporate governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

### Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- Preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- Maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures.
- Ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- Preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements.

- Ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.





# Code of audit practice: Responsibilities continued

## Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- Such financial monitoring and reporting arrangements as may be specified.
- Compliance with any statutory financial requirements and achievement of financial targets.
- Balances and reserves, including strategies about levels and their future use.
- How they plan to deal with uncertainty in the medium and longer term.
- The impact of reporting future policies and foreseeable developments on their financial position.

## Responsibilities for Best Value, community planning and performance

Local government bodies have a duty to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:

- the quality of its performance of its functions
- the cost to the body of that performance
- the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the local government body shall have regard to:

- efficiency
- Effectiveness
- economy
- the need to meet the equal opportunity requirements.

The local government body shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.

In measuring the improvement of the performance of a local government body's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.

The Scottish Government's Statutory Guidance on Best Value (2020) requires bodies to demonstrate that they are delivering Best Value in respect of seven themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality.

The Community Empowerment (Scotland) Act 2015 is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services.

Specified audited bodies are required to prepare and publish performance information in accordance with Directions issued by the Accounts Commission.



# Code of audit practice: Responsibilities continued

## Appointed auditors' responsibilities

Appointed auditors' statutory duties for local government bodies are contained within Part VII of the Local Government (Scotland) Act 1973, as amended.

These are to:

- audit the accounts and place a certificate (i.e. an independent auditor's report) on the accounts stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves, by examination of the accounts and otherwise, that:
  - the accounts have been prepared in accordance with all applicable statutory requirements
  - proper accounting practices have been observed in the preparation of the accounts
- the body has made proper arrangements for securing Best Value and is complying with its community planning duties
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the statutory reporting responsibilities in section 102 of the Local Government (Scotland) Act 1973, including those relating to the audit of the accounts of a local government body.

# B Independence Report

## Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2024, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

## Required Communications

### Planning stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity and independence.

### Final stage

To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide:

- a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- Details of non-audit/additional services provided and the fees charged in relation thereto.
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our continuing independence to act as your external auditor.



# Required communications

We have detailed below the communications that we must provide to the Council.

		Our reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Finance and Audit Scrutiny Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter (December 2022) – audit to be undertaken in accordance with the Code of Audit Practice.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	This [Provisional] Annual Audit Plan
Reporting and audit approach	<p>Communication of the reporting scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	This [Provisional] Annual Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</li> <li>• Significant difficulties, if any, encountered during the audit.</li> <li>• Significant matters, if any, arising from the audit that were discussed with management.</li> <li>• Written representations that we are seeking.</li> <li>• Expected modifications to the audit report.</li> <li>• Other matters if any, significant to the oversight of the financial reporting process.</li> <li>• Findings and issues regarding the opening balance on initial audits.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026



# Required communications continued

Our reporting to you

Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> <li>Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation.</li> <li>The effect of uncorrected misstatements related to prior periods.</li> <li>A request that any uncorrected misstatement be corrected.</li> <li>Corrected misstatements that are significant.</li> <li>Material misstatements corrected by management.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026
Fraud	<ul style="list-style-type: none"> <li>Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist.</li> <li>A discussion of any other matters related to fraud.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026
Internal controls	Significant deficiencies in internal controls identified during the audit.	Annual Audit Report – Indicatively planned for November/December 2026
Related parties	<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>Non-disclosure by management</li> <li>Inappropriate authorisation and approval of transactions</li> <li>Disagreement over disclosures</li> <li>Non-compliance with laws and regulations</li> <li>Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026



## Required communications continued

		Our reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>Management’s refusal for us to request confirmations.</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026
Representations	Written representations we are requesting from management and/or those charged with governance.	Annual Audit Report – Indicatively planned for November/December 2026
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off.</li> <li>Enquiry of the Finance and Audit Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance and Audit Scrutiny Committee may be aware of.</li> </ul>	Annual Audit Report – Indicatively planned for November/December 2026
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report – Indicatively planned for November/December 2026
Auditors report	Any circumstances identified that affect the form and content of our auditor’s report.	Annual Audit Report – Indicatively planned for November/December 2026
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>The principal threats</li> <li>Safeguards adopted and their effectiveness</li> <li>An overall assessment of threats and safeguards</li> <li>Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	This [Provisional] Annual Audit Plan and Annual Audit Report – Indicatively planned for November/December 2026



## Required communications continued

		Our reporting to you
Required communications	What is reported?	When and where
Group matters	<ul style="list-style-type: none"><li>• An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams.</li><li>• Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of the team's work, and how the group audit team addressed the concern.</li><li>• Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted.</li></ul>	This [Provisional] Annual Audit Plan and Annual Audit Report – Indicatively planned for November/December 2026
Best value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider-scope audit.	Annual Audit Report – Indicatively planned for November/December 2026
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	Annual Audit Report – Indicatively planned for November/December 2026



# Timeline of communication and deliverables

## Audit timetable

The Council has been working to a financial statements' preparation and audit timetable outside the traditional local government cycle for several years, reflecting a combination of governance, capacity and technical accounting challenges. Progress has been made towards re-establishing a more standard timetable, with a staged approach planned to support a sustainable return to timely reporting.

As part of this approach, we are working with the Council to support an initial return to a pre-calendar yearend audit completion timetable, before progressing to delivery of the statutory 30 September deadline in later years. For 2024/25, the audit was on course to support this interim step; however, completion was delayed due to the late provision of IFRS 16 information, which was not included within the prior-year unaudited accounts and was not fully provided until November 2025.

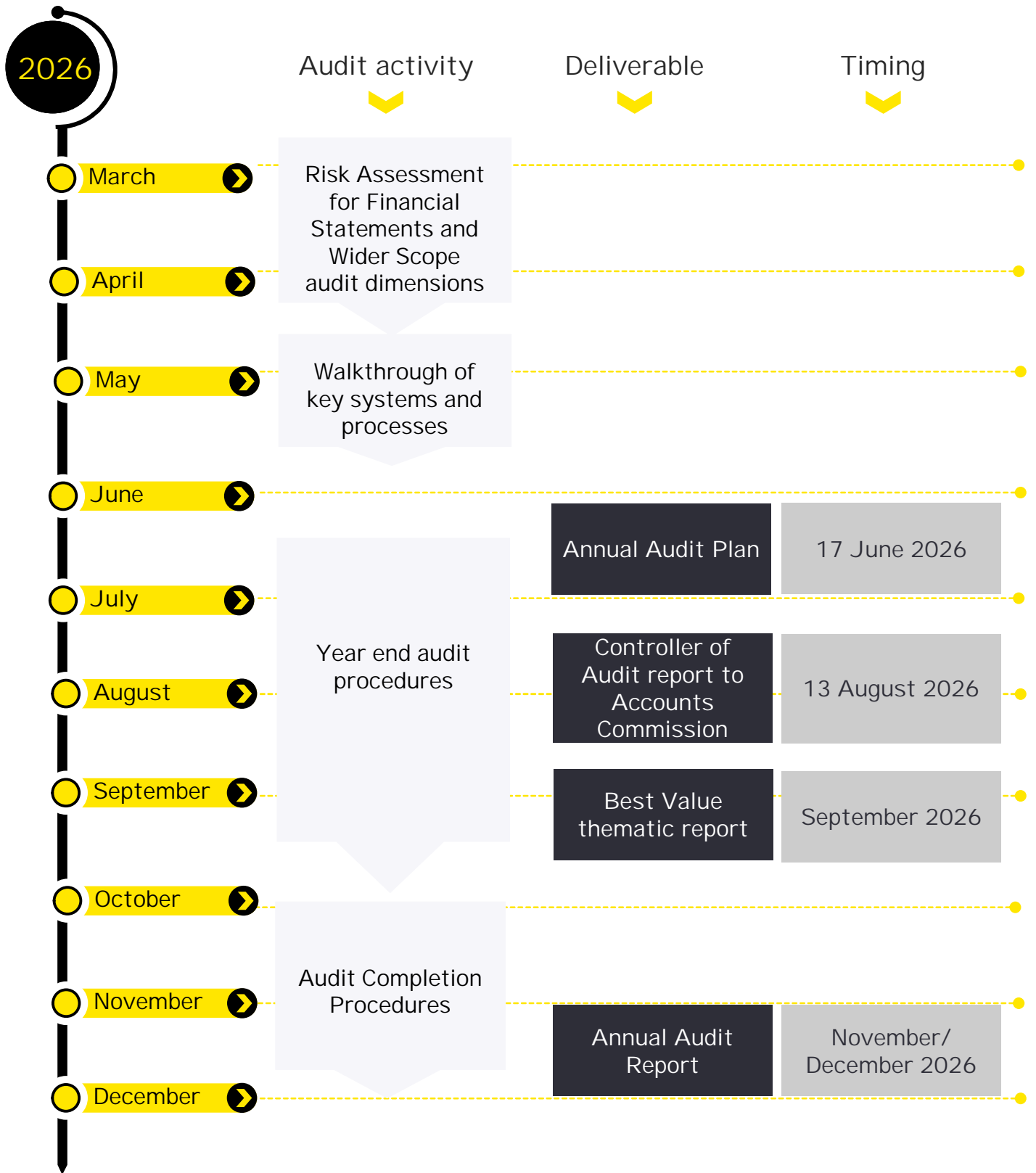
Working outside a standard local government audit timetable continues to create inefficiencies for both management and the audit process. We recognise that an immediate return to the statutory deadline is not achievable following consecutive years of delayed reporting. Timely delivery of the audit is therefore projected for the 2026/27 audit cycle, subject to continued progress against the agreed multi-year timetable.

We will continue to work closely with the Council to monitor progress against this timetable, which remains subject to ongoing review, and will keep the Finance and Audit Scrutiny Committee informed of progress and any emerging risks to delivery.

	2024/25	2025/26	2026/27
Audit plan to FASC	June 2025	June 2026	March 2027
Annual audit report to FASC	November 2025	November / December 2026	September 2027

# D

## Timeline of communication and deliverables continued



# E Audit Fees

## 2025/26 Fees

The Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2025/26	2024/25
Component of fee:		
▪ Auditor remuneration (note 1)	£792,340	£521,550
▪ Additional audit procedures (note 2)	£TBD	£490,487
Audit Scotland fixed charges:		
▪ Performance audit and best value	£229,490	£178,950
▪ Audit support costs	£27,330	£13,100
Sectoral price cap	£62,370	£100,730
<b>Total fee</b>	<b>£1,111,530</b>	<b>£1,304,817</b>

### Note 1

The initial base audit fee, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. It assumes that the Group and Council has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. For 2025/26, the base fee is £792,340. The base auditor remuneration has been updated to reflect known variations in the scope of the audit work required for the Council and Group's financial statements, which are expected to be recurring through the remaining two years of our audit appointment. This additional work is driven by changes in accounting and auditing standards since 2021 that are recurring, changes in the Council Group arrangements and statutory reporting requirements, and changes in the scope of work required around the valuation of key estimates and judgements, namely pension assets and property, plant and equipment, following our appointment in 2022/23.

All areas of additional work noted here were reflected in the fee variation reported for 2023/24 and 2024/25, now uplifted for the standard inflationary increase based on rates provided by Audit Scotland. This brings the total expected fee, before other variations yet to be quantified as set out below, to £1,111,530.

### Note 2

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line with the requirements of the Code of Practice. In line with previous years, given the risk profile of the Council and Group, and matters identified in previous audits, we anticipate further additional work required to conclude the 2025/26 financial statements' audit, in addition to those structural elements of additional work now reflected in the expected fee.

## **E** Audit Fees (continued)

We will provide management with an assessment of the potential areas of additional work, including areas of additional work from previous years where management has not been able to address the underlying root causes in time for the close of the 2025/26 financial statements, and also new accounting and auditing standards applicable this year which we have highlighted through this plan. At this stage quantification of any further time is pending completion of our detailed plans for yearend testing, and management's progress in preparing a robust set of financial statements and supporting evidence for audit.

We have agreed with management that we will seek to quantify estimates of any further additional work as matters arise and our work progresses sufficiently for estimates to become reliable. This will enable our final fee to be agreed and reported in line with Audit Scotland protocols as part of the final Annual Audit Report presented to the Finance and Audit Scrutiny Committee.



# Additional audit information

## Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

## Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Finance and Audit Scrutiny Committee, reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.

## Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures, and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit, we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



## Additional audit information (cont.)

### | Audit Quality Framework/Annual

#### Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [Quality of public audit in Scotland: Annual report 2024/25 | Audit Scotland](#)
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: [https://www.ey.com/en\\_uk/about-us/transparency-report](https://www.ey.com/en_uk/about-us/transparency-report)

### | This report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland through which the Auditor General has appointed us as external auditor of Glasgow City Council for financial years 2022/23 to 2026/27.

This report is for the benefit of the Council and is made available to the Accounts Commission and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

### | Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email [sreid2@uk.ey.com](mailto:sreid2@uk.ey.com). If you prefer an alternative route, please contact Anna Anthony, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly, and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute



# Group audit scope

## Overview of approach to group scoping

Our audit strategy for performing an audit of a group is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

We identified the components that are individually relevant to the group for which audit procedures will need to be performed to respond to the assessed risks of material misstatement of the group financial statements.

We considered the following matters to determine which components were individually relevant:

- The significant risks (including fraud risks), and other areas of higher assessed risk associated with the component and the nature of the circumstances related to those risk(s) of material misstatement, including the relative size of the balance at the component; and
- The financial size of the component relative to the group.

We identified the accounts to be included in the work to be performed at these components based on the components' financial information. We also applied professional judgment in determining those accounts having considered:

- The reasons the component was identified as individually relevant and the accounts affected by risks associated with the component;
- The extent of centralised procedures;
- Whether the accounts are affected by other assessed risks of material misstatement of the group financial statements; and
- The relative size of the balance at the component.

We considered the balance of group accounts not yet subject to planned audit procedures and determined whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group financial statements.

The number of additional components and extent of procedures to be performed took into consideration:

- The extent of evidence already planned to be obtained from components which are individually relevant and the related in-scope accounts;
- Whether centralised procedures can be performed on the residual account balances, including testing direct entity-level controls that operate throughout the group;
- The results of risk assessment analytical procedures performed; and
- The results of the analysis on the residual significant account balances

Having identified the components for which work will be performed, we determined the scope to assign to each component.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations.

As explained on page [20], the Primary Team assigns one of the following audit scopes to the component team:

- Procedures performed centrally: certain balances within components assigned a full or specific scope are subject to centralised procedures performed by the Glasgow City Council audit team.
- Full scope - the design and performance of audit procedures on a significant proportion of the financial information of the component;
- Specific scope - the design and performance of audit procedures on one or more classes of transactions, significant accounts, or disclosures of the financial information of a component;
- Specified procedures - where the component team performs procedures specified by the Group audit team to obtain audit evidence for one or more elements of the group financial statements and/or to respond to identified risks of material misstatement.



## Group audit scope continued

- Remaining components – Based on our planned audit scope, there may exist residual amounts of balances and accounts of the group financial statements which are not included in the group scope. These amounts have been evaluated as not presenting a risk of material misstatement to the group financial statements. We update and perform further risk assessment procedures as necessary to conclude our assessment that there is no risk of material misstatement in those amounts.

through our annual audit report.

Through discussions with management, we have agreed to include the two City Building entities within the scope of the group audit for the first time during our appointment. In previous years, these entities were not scoped into the group audit, contributing to a modified audit opinion on the group financial statements. Our approach will include issuing group instructions for 2025/26. Our work will include consideration of the impact of the modified audit opinion on comparatives and opening balances in respect of these entities.

The below table sets out our approach to the scoping of the Group audit as explained on page [20]. This will be subject to review throughout the audit. Any revisions to the proposed scope will be reported

Entity	Scope	Statutory audit performed by EY	Current year rationale for scoping
Glasgow City Council	Full	Yes	Significant by size
Glasgow City Integration Joint Board	Specific	Yes	Statutory audit performed by EY
Scottish Event Campus Limited	Specific	No	Specific significant accounts by size or risk
City Building (Contracts) Limited Liability Partnership	Specific	No	Specific significant accounts by size or risk
Culture and Sport Glasgow, trading as Glasgow Life	Specific	No	Specific significant accounts by size or risk
City Property Glasgow (Investments) LLP	Specific	No	Specific significant accounts by size or risk
City Property Glasgow (Operations SL1) LLP	Specific	No	Specific significant accounts by size or risk
City Property Glasgow (Operations SL2) LLP	Specific	No	Specific significant accounts by size or risk
City Property Glasgow (Operations SL) Limited	Specific	No	Specific significant accounts by size or risk



## Group audit scope continued

Entity	Scope	Statutory audit performed by EY	Current year rationale for scoping
City Property Glasgow (Operations SL3) LLP	Specific	No	Specific significant accounts by size or risk
City Property Glasgow (SL Operations 3) Limited	Specific	No	Specific significant accounts by size or risk
City Building (Glasgow) Limited Liability Partnership	Specific	No	Specific significant accounts by size or risk
Jobs & Business Glasgow	No Scope	No	No scope assigned due to immaterial size and risk
Strathclyde Partnership for Transport	Specific	No	Specific significant accounts by size
Strathclyde Concessionary Travel Scheme	No Scope	No	No scope assigned due to immaterial size and risk
Common good fund	Specific	Yes	Statutory audit performed by EY
Sundry Trusts	Specific	Yes	Statutory audit performed by EY

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