

Architecture and Design Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Architecture and Design Scotland and the Auditor General for Scotland

September 2017

Who we are

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

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



About us

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

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

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

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Key messages

Audit of the 2016/17 financial statements

- 1** The financial statements of Architecture and Design Scotland (A&DS) give a true and fair view of the financial position and their expenditure and income.
- 2** Several adjustments to the unaudited accounts were required following the audit process. In addition a further three significant prior period adjustments had to be processed.
- 3** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 4** The other information in the annual report and accounts was consistent with the financial statements. Several amendments were required to the Remuneration and Staff Report to ensure it was disclosed in line with guidance.

Financial management

- 5** In 2016/17 A&DS has operated within the resource limits set by the Scottish Government.
- 6** A&DS has effective financial management arrangements in place.

Governance and transparency

- 7** The Governance Statement included within the financial statements complies with applicable guidance.
- 8** A&DS should consider opportunities to enhance openness and transparency.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Architecture and Design Scotland (A&DS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit Committee. In accordance with paragraph 53 of the [Code of Audit Practice 2016](#), A&DS was audited under the small body provisions which, in our judgement, is appropriate given the size and nature of this audit.

3. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

4. The main elements of our audit work in 2016/17 has been an audit of A&DS's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

5. A&DS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the organisation to successfully deliver its objectives.

- 6.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
- 7.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the strategic report and directors' report and the governance statement. We also consider the arrangements within A&DS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 8.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 9.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 14\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 11.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 12.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 13.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of A&DS for 2016/17 give a true and fair view of the state of affairs of the company and its surplus for the year then ended.

Several adjustments to the unaudited accounts were required following the audit process. In addition a further three significant prior period adjustments had to be processed.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.

The other information in the annual report and accounts was consistent with the financial statements. Several amendments were required to the Remuneration and Staff Report to ensure it was disclosed in line with guidance.

Unqualified audit opinions

14. The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 11th September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, strategic report, directors' report and governance statement.

15. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

16. We received the unaudited accounts on 30th May 2017. However this initial version did not contain any figures. We received a second version on 1st June, almost 1 week after our agreed timetable.

17. Period 13 journals were not posted through the ledger prior to the financial statements audit commencing. This resulted in additional work being required to agree figures per the unaudited accounts.

[Action plan \(Appendix 1, point 1\)](#)

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Risk of material misstatement

18. [Appendix 2 \(page 15\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and accounts we reviewed our original materiality calculations and refined them in line with the draft accounts. These are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£17,846
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality.	£12,492
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of overall materiality.	£500

Source: Audit Scotland

Evaluation of misstatements

22. We identified 5 misstatements in the unaudited financial statements totalling £229,689. All of these were adjusted for in the revised financial statements.

23. In addition three errors, totalling £326,369 were identified in the 2015/16 financial statements. These have been restated in the 2015/16 financial statements in accordance with the accounting standard requirements.

24. The total value of misstatements in 2016/17 exceeded our overall materiality and further audit procedures were performed to provide assurance that the errors identified were isolated in nature and not pervasive to either the account area or the financial statements. No further issues were identified.

Significant findings from the audit

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 14\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Deferred income</p> <p>For several years A&DS have deferred the balance in one of their bank accounts at 31st March. This is not considered appropriate and is not in line with IAS18.</p>	<p>This has been adjusted in the 2016/17 financial statements. In addition a prior year adjustment has been processed for the comparatives and a disclosure note included within the 2016/17 financial statements.</p>
<p>2. Accrued holiday entitlement</p> <p>Organisations are required to recognise a liability at the year-end for accrued holiday pay and flexi-time entitlements. This was not reflected the unaudited financial statements.</p>	<p>The liabilities for the current and prior year holiday pay and flexi-time entitlements were calculated and adjusted in the financial statements. The prior year figures have been re-stated.</p>
<p>3. Remuneration Report disclosures</p> <p>The FReM requires the remuneration report to include disclosures for each director. Paragraph 5.3.9 describes directors as the management board having authority or responsibility for directing or controlling the major activities of the body during the year. The unaudited financial statements disclosed A&DS's management team as the Chief Executive and three directors, however only the Chief Executive was included in the remuneration report.</p>	<p>Members of A&DS management team have now been included in the Remuneration Report.</p>
<p>4. Remuneration and Staff Report</p> <p>Several amendments were required to the Remuneration and Staff Report to ensure disclosure in line with the FReM. Amendments included the inclusion of staff costs and numbers in the Staff Report and changes to the median pay disclosure to ensure the disclosure was based on remuneration of the Chief Executive as the highest paid director.</p>	<p>All disclosures have been amended and the Remuneration and Staff report is now disclosed in line with the FReM.</p>

Issue	Resolution
<p>5. Provisions</p> <p>The unaudited financial statements did not include a provision of £14,090 which was required in line with IAS37.</p>	<p>The provision has been included in the financial statements.</p>
<p>6. Prepayment</p> <p>Audit testing identified a prepayment of £14,892 that hadn't been included in the unaudited financial statements.</p>	<p>The prepayment has now been correctly accounted for in the financial statements.</p>
<p>7. FReM Compliance</p> <p>Per A&DS's Accounts Direction they are required to prepare their accounts in accordance with the FReM. There are some areas such as accounting for grant-in-aid funding where there is conflict between the Companies Act and the FReM. A&DS currently disclose their grant-in-aid as revenue in accordance with the Companies Act.</p> <p>In addition A&DS could improve transparency by including a Statement of resource outturn.</p>	<p>The Scottish Government have confirmed that they require A&DS to account for its grant-in-aid in accordance with the FReM from 2017/18.</p> <p>A&DS are committed to reviewing disclosures and altering reporting formats where appropriate.</p> <p>Action Plan (Appendix 1, point 2)</p>
<p>8. Accrued income in 2015/16</p> <p>In 2015/16 £55,000 of accrued income was incorrectly offset against deferred income in the year. This resulted in both accrued and deferred income being understated in 2015/16.</p>	<p>The prior year figures for accrued and deferred income have been restated and a disclosure included to explain the restatement.</p>
<p>Source: Audit Scotland</p>	

Other findings

26. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

In 2016/17 A&DS has operated within the resource limits set by the Scottish Government.

A&DS has effective arrangements in place for financial management.

Financial performance in 2016/17

27. The main financial objective for A&DS is to provide a break-even position each year on a cash income / spend basis. A&DS should also ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

28. At the beginning of each year A&DS budget for staff costs and overheads which is funded as part of their core budget allocation. The remaining funding they receive is for project work which is reviewed on an ongoing basis. Throughout the year additional allocations are also awarded for specific project work.

29. A&DS has reported an outturn of £18,616 and remained within its overall resource budget for 2016/17. We concluded that A&DS has appropriate financial monitoring arrangements in place.

Internal controls

30. As part of our audit we identify and confirm the operation of the key internal controls operating in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that A&DS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. We have not identified any significant issues in this area.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

31. We have reviewed the arrangements in place to maintain standards of conduct in the organisation. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

32. Based on our review of the evidence we concluded that A&DS has appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

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

Part 3

Governance and transparency



Main judgements

The Governance Statement complies with applicable guidance

A&DS should consider opportunities to enhance openness and transparency.

Governance arrangements

33. The Board is responsible for setting the Strategic Direction for A&DS in conjunction with the Chief Executive, and is supported in its role by the Audit Committee.

34. The Management Team, comprising of the Chief Executive and three directors, are responsible for operational responsibility.

The Governance Statement

35. Under the Companies Act, A&DS must prepare a governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

36. The SPFM does not prescribe a format for the governance statement, but sets out minimum requirements for central government bodies.

37. We concluded that the governance statement included in the 2016/17 annual report and accounts complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents a comprehensive picture of governance arrangements and matters.

Risk management

38. A&DS have shown improvements in their risk management processes through the introduction of Corporate and Strategic Risk Registers in 2016/17. Updates are now regularly provided to members for scrutiny.

39. Business continuity is the capability of an organisation to continue to deliver its core business to set levels following a disruptive event like: cyber-attack; IT systems failure; telecommunications failure; premises unavailable; utility services unavailable; staff unavailability. In 2016/17 A&DS drafted a Business Continuity Plan and work on this is ongoing. We will review its implementation going forward.

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

Transparency

40. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

41. A&DS's board meetings are held in private. The minutes of these meetings should be publicly available on the website, however our review has identified that the most recent minutes available date back to March 2015.

[Action Plan \(Appendix 1, point 3\)](#)

42. With increasing public expectations for more openness in the conduct of public business, A&DS should consider whether there is scope to enhance transparency and keep this area under review.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
7	<p>1. Submission of financial statements and working papers for audit</p> <p>The financial statements were not completed in line with the agreed timetable.</p> <p>Risk</p> <p>Additional time spent on the audit may result in inability to meet deadlines.</p>	<p>All year end journals should be processed before closure of the ledger in the applicable financial year.</p>	<p>Narrative on agreed action.</p> <p>Responsible officer.</p> <p>Agreed date.</p>
10	<p>2. FReM compliance</p> <p>A&DS has prepared its 2016/17 annual report and accounts in line with the requirements of the Companies Act and the Scottish Public Finance Manual (SPFM) as appropriate. However there are areas where A&DS could improve transparency of the financial statements in line with the FReM.</p> <p>Risk</p> <p>A&DS's annual report and accounts may not be in line with good practice and transparency principles for public bodies.</p>	<p>A&DS should consider improved disclosures in 2017/18 in line with the FReM.</p>	<p>Narrative on agreed action</p> <p>Responsible officer</p> <p>Agreed date</p>
14	<p>3. Transparency</p> <p>The minutes of Board meetings should be available on A&DS's website however these have not been updated since March 2015.</p> <p>Risk</p> <p>A&DS is perceived as not transparent in its reporting to the public.</p>	<p>Board papers should be made available on A&DS's website as soon as is practicable.</p>	<p>Narrative on agreed action</p> <p>Responsible officer</p> <p>Agreed date</p>

Appendix 2

Significant audit risks identified during planning

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

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. 	<p>Our audit procedures did not uncover evidence of management override of controls .</p>
<p>2 Fraud over income</p> <p>The majority of A&DS's income is grant in aid from the Scottish Government, however historically there has been a significant level of deferred income. In accordance with ISA240, we have assessed that there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> Substantive testing of transactions after the year end to confirm income has been correctly accounted for. 	<p>There were no frauds identified from our substantive testing.</p>
<p>3 Accounting for expenditure</p> <p>Due to the nature of A&DS's expenditure on projects which span across several years there is a risk that expenditure is not accounted for in the correct financial year. Expenditure on projects to 31st March is based on estimates of spend to date on projects.</p>	<ul style="list-style-type: none"> Detailed testing of accruals and prepayments. Substantive testing of project expenditure to ensure it has been accounted for in the correct financial year. 	<p>No issues were identified from our expenditure testing.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>4 Accounts Direction</p> <p>Our planning work has identified two Accounts Directions exist for A&DS, which require compliance with different accounting frameworks. We have been unable to ascertain the correct direction which A&DS should follow. There is a risk that A&DS do not prepare the accounts in the correct format.</p>	<ul style="list-style-type: none"> • Discussions with Audit Strategy, • Review progress of consultation with Scottish Government. • Confirm financial statements are prepared in accordance with relevant accounting regulations. 	<p>Confirmation received from Scottish Government that the 2006 Accounts Direction is the correct Direction which requires A&DS to comply with the FReM.</p> <p>Through our audit testing we confirmed that the Annual Report and Accounts give a true and fair view of the organisation and have been prepared in accordance with the Direction and applicable framework.</p>

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk