

# Architecture and Design Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

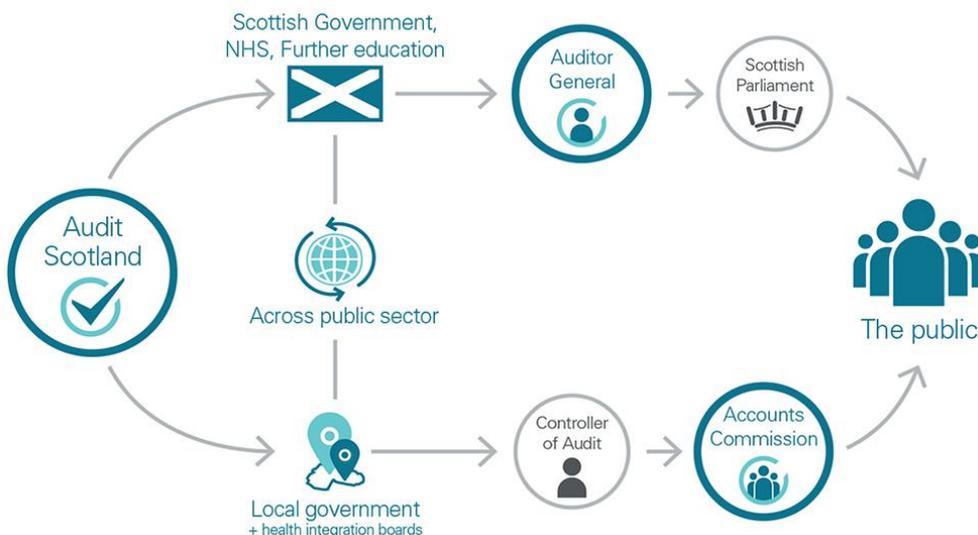
Prepared for Architecture and Design Scotland

12 February 2018

# 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Architecture and Design Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Management's source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 presumes a risk of fraud over income.</p> <p>Architecture and Design Scotland receives a material amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240,</p>	<p>We recognise risks of fraud over income and we have put in place appropriate controls to ensure risks are minimised.</p> <p>These controls include liaising closely with Scottish Government, segregation of duties and regular reconciliations.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management's source of assurance	Planned audit work
there is an inherent risk of fraud.		
<p><b>3 Risk of fraud over expenditure</b></p> <p>The risk of fraud over income presumed by ISA 240 is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by Architecture and Design Scotland in delivering services.</p>	<p>We recognise risks of fraud over expenditure and we have put in place appropriate controls to ensure risks are minimised.</p> <p>These controls include Scheme of Delegated Authority, authorisation of purchase orders, purchase invoices, expenses and bank payment runs, checks on supplier bank account details, segregation of employee duties and regular reconciliations.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>
<p><b>4 2016/17 Significant Audit Issues</b></p> <p>A number of adjustments were processed in the 2016/17 financial statements following findings in the 2016/17 audit. This included material errors in deferred income, accruals, provisions, prepayments and accrued income.</p> <p>Issues were raised regarding the content of disclosures in the Remuneration Report.</p> <p>Additionally, the unaudited financial statements were not received within the agreed timetable in 2016/17.</p> <p>The number of misstatements noted in 2016/17 and the delayed receipt of accounts increases the risk of similar issues in 2017/18.</p>	<p>The 2016/17 Audit Issues were identified during Year 1 of the appointment of new auditors who requested a change of accounting treatment of certain assets and liabilities from previous auditors.</p> <p>We are confident that in 2017/18 these Audit Issues have been resolved and should not present as Audit Issues in 2017/18.</p>	<p>Focussed testing in the areas where issues were noted in 2016/17.</p>
<p><b>5 Accounting for grant-in-aid</b></p> <p>Architecture and Design Scotland is required to prepare accounts in line with both the FReM (as a non-departmental public body) and the Companies Act (as a limited company). There are some minor differences between these reporting frameworks.</p> <p>For example, grant-in-aid was accounted for as income in 2016/17 in line with Companies Act. It was agreed with the Scottish Government that grant-in-aid would be treated as financing from 2017/18 onwards,</p>	<p>We note the complexities in reporting in line with the FReM and the Companies Act.</p> <p>We will work with Audit Scotland to agree the presentation of grant-in-aid in 2017/18 financial statements.</p>	<p>Early discussions regarding the presentation of grant-in-aid.</p> <p>Focussed testing of grant-in-aid and related disclosures.</p> <p>Consideration of accounting treatment for areas where the FReM and Companies Act differ.</p>

Audit Risk	Management's source of assurance	Planned audit work
<p>in line with the FReM.</p> <p>The nature of reporting under two different reporting frameworks and the specific change in accounting method for grant-in-aid both increase the risk of material misstatement in the accounts.</p>		
<b>Wider dimension risks</b>		
<p><b>6 Recruitment of Chair and board members</b></p> <p>The terms of the current Chair and two further board members (including the Chair of the Audit Committee) end on 31 March 2018.</p> <p>Due to delays in recruitment it is unlikely that new board members will be in place from 1 April 2018.</p> <p>The term of the Chair has been extended for 6 months to mitigate for this delay, however there is a risk that these recruitment delays may impact the effectiveness of the board and sub-committees.</p>	<p>The recruitment of A&amp;DS Chair and board members is managed by Scottish Government's Public Appointments team.</p> <p>We are working closely with Public Appointments team to ensure a new Chair and two new board members are recruited as soon as possible.</p>	<p>Monitoring of progress.</p>
<p><b>7 Financial Sustainability</b></p> <p>Grant-in-aid funding from the Scottish Government has remained largely static in cash terms over the past 7 years.</p> <p>Architecture and Design Scotland faces a number of pressures (e.g. pay inflation) that are increasing costs.</p> <p>Architecture and Design Scotland may have to make savings in the future to achieve financial balance and this could impact on its ability to provide services.</p>	<p>We recognise the challenging financial circumstances in which A&amp;DS have to operate within.</p> <p>We recognise the need to ensure financial sustainability of our organisation and this is recorded on our Strategic Risk Register to ensure the issues are discussed at Board level.</p> <p>We have prepared five year financial forecasts based on different funding scenarios.</p>	<p>Review of Architecture and Design Scotland scenario planning papers presented to the Board.</p>

## Reporting arrangements

**4.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**5.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to Architecture and Design Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Report	August 2018 (TBC)	TBC – deadline October 2018
Independent Auditor's Report	August 2018 (TBC)	TBC – deadline October 2018

### Audit fee

7. The proposed audit fee for the 2017/18 audit of Architecture and Design Scotland is £7,970 (2016/17: £7,860). In determining the audit fee we have taken account of the risk exposure of Architecture and Design Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 8 June 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit Committee and Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or the audit committee as those charged with governance, of their responsibilities.

#### Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Architecture and Design Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Architecture and Design Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**14.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the company and its surplus or deficit
- whether they have been properly prepared in accordance IFRSs as adopted by the European Union, and the requirements of the Companies Act 2006 and directions made by the Scottish Ministers
- the regularity of the expenditure and income.

## Materiality

**15.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**16.** We calculate materiality at different levels as described below. The calculated materiality values for Architecture and Design Scotland are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure, and calculated based on the 2016/17 audited accounts. Planning materiality will be updated for 2017/18 figures on receipt of the unaudited annual accounts in June 2018.	£18,000
<b>Performance materiality</b> – 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 50% of planning materiality.	£9,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000

Source: Audit Scotland

**17.** We review and report on other information published with the financial statements including the Strategic Report and Accountability Report. Any issue identified will be reported to the Audit Committee.

### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	8 June 2018
Latest date for final clearance meeting with Chief Executive	1 August 2018 (TBC)
Issue of letter of representation and proposed independent auditor's report	6 August 2018 (TBC)
Issue of Annual Audit Report including ISA 260 report to those charged with governance	6 August 2018 (TBC)
Agreement of audited unsigned annual accounts	13 August 2018 (TBC)
Independent auditor's report signed	End August 2018

## Internal audit

**19.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit is provided by TIAA.

**20.** We are currently in the process of assessing whether the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and will report any issues in our Annual Audit Report.

**21.** We will consider the work of internal audit throughout the year to inform our audit processes.

## Audit dimensions

**22.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). Due to the nature and size of Architecture and Design Scotland, we have assessed the extent of wider dimensions work and concluded that a reduced scope, as outlined in paragraph 53 of the Code of Audit Practice, can be applied.

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### Exhibit 5

#### Audit dimensions



Source: Code of Audit Practice

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## Financial sustainability

**23.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether Architecture and Design Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**24.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether Architecture and Design Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether Architecture and Design Scotland can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Architecture and Design Scotland has assured itself that its financial capacity and skills are appropriate
- whether Architecture and Design Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**25.** 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. We will review, conclude and report on:

- whether Architecture and Design Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**26.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- Architecture and Design Scotland can provide evidence that it is demonstrating value for money in the use of its resources.
- Architecture and Design Scotland can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- Architecture and Design Scotland can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Independence and objectivity

**27.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit

and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**28.** The engagement lead for Architecture and Design Scotland is Mark Ferris. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Architecture and Design Scotland.

## Quality control

**29.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**30.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**31.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

## Adding Value

**32.** Through our audit work we aim to add value to Architecture and Design Scotland. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Architecture and Design Scotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Architecture and Design Scotland

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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