

# Architecture and Design Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Architecture and Design Scotland

3 March 2020

## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to Architecture and Design Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In doing so, we intend to help Architecture and Design Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. 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 statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240. The risk of fraud over expenditure 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 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>	<ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk</li> </ul>
<p><b>3 Risk of fraud over income</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be materially misstated in the financial statements.</p> <p>While the majority of A&amp;DS's income is in the form of grant-in-aid from the Scottish Government, A&amp;DS are also projected to receive additional funding to run specific projects during the year. This additional funding is material to the accounts of A&amp;DS and therefore there is an inherent risk of fraudulent or erroneous reporting of income to achieve a desired financial position.</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>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of income transactions focusing on whether income is processed in the correct accounting year.</li> </ul>
<p><b>4 2018/19 audit adjustments</b></p> <p>In 2018/19, our audit work identified a material error in relation to the early recognition of a prepayment. Two other errors relating to income and expenditure recognised in the incorrect financial year were also identified.</p> <p>Management corrected these errors in the 2018/19 audited financial statements, however their occurrence increases the risk of similar misstatements in 2019/20.</p>	<p>We will review all trade creditors at 31 March 2020 and exclude from prepayments on the basis that they have not been paid.</p> <p>We will ensure other income is closely scrutinised to ensure it is accounted for in the correct accounting periods within the Annual Report and Accounts.</p>	<ul style="list-style-type: none"> <li>Detailed testing of the trade receivable and trade balances stated within the financial statements, focusing on the areas of greatest risk</li> <li>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk</li> <li>Discussions with management to obtain assurance over the reviews and scrutinising of processes</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>			
<b>5</b>	<b>Financial sustainability</b>  Grant-in-aid funding from the Scottish Government has remained largely static in cash terms over the past 9 years.  Architecture and Design Scotland faces several pressures (e.g. pay inflation) that are increasing costs.  Architecture and Design Scotland may need to make savings in the future to achieve financial balance and this could impact on its ability provide services.	We recognise the challenging financial circumstances in which A&DS have to operate within.  We recognise the need to ensure financial sustainability of our organisation and this is recorded on our Risk Register to ensure the issues are discussed at Board level.  We have prepared five year financial forecasts based on different funding scenarios.	<ul style="list-style-type: none"> <li>Review of Architecture and Design Scotland scenario planning papers presented to the Board.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** 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).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans.

**7.** 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 during the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	18 February 2020	3 March 2020
Annual Audit Report	14 August 2020	1 September 2020
Independent Auditor's Report	14 August 2020	1 September 2020

Source: Audit Scotland

## Audit fee

**8.** The proposed audit fee for the 2019/20 audit of Architecture and Design Scotland is £8,240 (2018/19: £8,120). In determining the audit fee we have taken account of the risk exposure of Architecture and Design Scotland and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 1 June 2020.

**9.** 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 out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

**10.** 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.

**11.** The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other 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

**14.** The statutory financial statements audit will be the foundation and source for most 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.

**15.** 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 and deficit
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, the requirements of the Companies Act 2006 and the directions made by the Scottish Ministers
- the regularity of the expenditure and income

## Statutory other information in the financial statements

**16.** We also review and report on statutory other information published within the financial statements including the management commentary, governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**17.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report, and report any uncorrected material misstatements.

## Materiality

**18.** 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 opinions in the independent auditor's report.

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



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the 2018/19 audited accounts. Planning materiality will be updated for 2019/20 figures on receipt of the unaudited annual accounts in June 2020.	£19,000
<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 60% of planning materiality.	£11,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£1,000

Source: Audit Scotland

## Timetable

**20.** To support the efficient use of resources it is critical that the 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	15 June 2020
Latest date for final clearance meeting with management	3 August 2020 (TBC)
Issue of Letter of Representation and proposed independent auditor's report	7 August 2020 (TBC)
Issue of Annual Audit Report to those charged with governance	14 August 2020 (TBC)
Agreement of audited unsigned annual accounts	17 August 2020 (TBC)
Independent auditor's report signed	September 2020 (TBC)

## Internal audit

**21.** As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

### Using the work of internal audit

**22.** 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.

**23.** 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.

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

## Audit dimensions

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**26.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As Architecture and Design Scotland is a relatively small and non-complex body, we plan to apply the small body provisions of the Code in our 2019/20 audit.

## Financial sustainability

**27.** 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 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.

## Governance and transparency

**28.** 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 the appropriateness of disclosures in the Governance Statement.

## Independence and objectivity

**29.** 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 robust arrangements in place 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.

**30.** The engagement lead for Architecture and Design Scotland is Mark Ferris, Senior Manager. 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

**31.** 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.

**32.** 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**33.** 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

**34.** 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 2019/20

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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