

Architecture and Design Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

December 2022

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Key messages

2021/22 annual report and accounts

- 1 Architecture and Design Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 3 The Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial sustainability

- 4 Architecture and Design Scotland reported a deficit of £9,260 in 2021/22 against the targeted breakeven position. As a result, the general reserves balance decreased from £339,435 at the start of the financial year to £330,175 as at 31 March 2022.
- 5 A&DS prepare five-year cashflow forecasts to support the achievement of the 10-year Corporate Strategy and 3-year Corporate Plan outcomes. A&DS is forecasting a year-end deficit position from 2024/25 onwards, with a total deficit of £167,000 predicted across the 2022/23-2026/27 period.

Introduction

1. This report summarises the findings from our 2021/22 audit of Architecture and Design Scotland (A&DS).

2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the Audit and Risk Committee on 7 June 2022. This report comprises the findings from:

- an audit of the A&DS annual report and accounts
- our consideration of financial sustainability

Adding value through the audit

3. We add value to A&DS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

4. We aim to help A&DS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. A&DS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers.

6. A&DS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. Our audit work on A&DS's Best Value arrangements is focussed on the bodies use of resources to secure financial sustainability.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and

effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. 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 [Code of Audit Practice 2016](#) (the Code) 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 highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

10. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

12. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £8,610 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to the A&DS and the Auditor General for Scotland and will be published on Audit Scotland's [website www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

Audit appointment from 2022/23

The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will remain

the appointed auditor for A&DS. We are working closely with the new auditors to ensure a well-managed transition.

16. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. There are a number of significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work.

18. We would like to thank Board and Audit Committee members, management and staff, particularly those in finance, for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Architecture and Design Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

The Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2022 were approved by the board on 15 December 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts were signed off in line with the deadline date

20. For 2021/22, the statutory submission deadline for the audited annual report and accounts is 31 December 2022.

21. The unaudited annual report and accounts were received along with a working paper package in line with our agreed audit timetable on 7 November 2022.

Overall materiality is £34,000

Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and the levels set were deemed to remain appropriate. Materiality is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£34,000
Performance materiality	£26,000
Reporting threshold	£2,000

Source: Annual Audit Plan 2021/22

22. In determining performance materiality, we considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. The overall scope of the audit was adapted to incorporate the significant assessed risk of material misstatement and corresponding audit procedures outlined within [Exhibit 2](#).

We have no significant findings to report on the annual report and accounts

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant issues to report from the work performed on the identified risks of material misstatement. Other audit findings are documented at [Appendix 1](#).

25. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan (tailor if additional significant ROMMs identified during the audit) audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risks from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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>Cut off testing of transactions at and around year-end.</p>	<p>Results & Significant Judgements:</p> <p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not raise any issues.</p> <p>Focussed testing of accruals and prepayments resulted in adjustments to the accounts all of which were agreed by management per Appendix 1.</p> <p>No issues were identified in relation to cut-off testing.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Conclusion: there is no evidence of management override of controls.</p>

Identified misstatements of £5,600 were adjusted in the accounts, these were less than our performance materiality and we did not need to revise our audit approach

26. Total misstatements identified were £5,600 in relation to incorrect recognition of accruals. The net impact was an overstatement of accruals of £4,400.

27. We have reviewed the nature and causes of these misstatements and performed additional testing to obtain assurance over the completeness and existence of accruals. We are satisfied that there are no material misstatements within this account area, however, we recommend that A&DS review the process in place for identification of accruals and ensure appropriate checks are performed over accruals raised.

28. Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £4,400 and increased net assets in the Statement of Financial Position by £4,400.

Recommendation 1

A&DS should review the process in place for identification of accruals and ensure appropriate checks are performed over accruals raised.

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

30. Our audit work also identified changes required to the related parties disclosure note in order to align the disclosure with the requirements of IAS 24. A&DS agreed the amendments and the disclosure note was expanded.

Good progress was made on prior year recommendations

31. A&DS has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2. Financial sustainability and governance statement

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

A&DS reported a deficit of £9,260 in 2021/22 against the targeted breakeven position. As a result, the general reserves balance decreased from £339,435 at the start of the financial year to £330,175 as at 31 March 2022.

A&DS prepare five-year cashflow forecasts to support the achievement of the 10-year Corporate Strategy and 3-year Corporate Plan outcomes. A&DS is forecasting a year-end deficit position from 2024/25 onwards, with a total deficit of £167,000 predicted across the 2022/23-2026/27 period.

A&DS operated within its revised budget for 2021/22

32. The main financial objective for A&DS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

33. The initial grant in aid allocation from Scottish Government was £1.916 million. This was revised to £1.888 million due to an underspend of £0.028 million in relation to the Climate Action Towns grant. Upon release of deferred income from the prior year and deferred income relating to future periods, the final allocation for 2021/22 was £2.131 million.

34. A&DS has reported an outturn of £2.140 million against its overall budget for 2021/22 of £2.131 million. The deficit of £0.009 million decreased reserves from £0.339 million at the start of the financial year to £0.330 million as at 31 March 2022.

A&DS face significant financial challenge and uncertainty going forward

35. The 2022/23 budget was approved by the A&DS Board on 17 February 2022 with a balanced budget forecast. The updated management accounts position as at 6 October 2022 confirms a forecast balanced position at the year-end.

36. A&DS prepare five-year cash flow forecasts to assist with financial planning and achievement of the 10-year Corporate Strategy Outcomes. A&DS is

forecasting a year-end deficit position from 2024/25 onwards with a total deficit of £0.167 million predicted across 2022/23-2026/27.

37. The financial forecasts give high level estimates across the five-year period. These are useful in identifying and addressing risks to financial sustainability across the short and medium term. However, A&DS face financial uncertainties including inflationary and pay related pressures over the short to medium term which will have impact on the current forecasts determined.

38. In response to these challenges, A&DS are exploring new ways of working including consideration of future office accommodation options to reduce rental expenditure and development of the Stakeholder Strategy to promote the work of A&DS in achieving Scottish Government priorities and highlighting the funding required to support this. A&DS also intend to take advantage of benefits realised from hybrid working and reducing costs through provision of online events where appropriate.

Recommendation 2

Five-year financial forecasts should be monitored and revised as more up to date information becomes available to ensure informed financial planning decisions are made.

Governance Statement and Performance Report is consistent with the financial statements

39. Our review of the governance statement and performance report within the 2021/22 annual report and accounts concluded that both are consistent with the financial statements and properly prepared in accordance with the accounts direction.

40. A&DS have made good progress in improving performance reporting, however the performance report within the accounts could be developed further to include details of key outcome measures incorporating quantitative and trend information as data becomes available as set out in [Appendix 1](#).

Recommendation 3

Further develop the performance report within the annual report and accounts to include details of performance against key outcome measures. The performance information should incorporate quantitative and trend information as data becomes available.

National performance audit reports

41. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 3](#) highlights a number of the reports published in 2021/22.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Accruals Errors</p> <p>Errors were identified from testing of accruals at year-end. This included £5,000 of expenditure relating to 2022/23 being incorrectly classified as an accrual in 2021/22. Further testing identified an additional minor understatement error of £600 as a result of human error.</p> <p>Risk – Accruals are materially misstated within the accounts.</p>	<p>A&DS should review the process in place for identification of accruals and ensure appropriate checks are performed over accruals raised.</p> <p>Paragraph 26</p>	<p>We have reviewed the process for the identification of accruals and have made appropriate changes to both the process of identifying accruals and reviewing accruals.</p> <p>Training has been delivered to employees which will be delivered again in March 2023 as a refresher.</p> <p>Responsible officer Lynne Lineen</p> <p>Agreed date 31 March 2023</p>

Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Financial sustainability</p> <p>The impact of the pandemic continues to present financial challenges, with a projected recurring deficit from 2022/23 onwards.</p>	<p>A&DS should develop a revised financial strategy which ensures the total balances available are used to support financial sustainability over the medium-term. The financial strategy will require to</p>	<p>In Progress</p> <p>Revised action</p> <p>We will continue to ensure our work aligns to Scottish Government priorities and that we deliver our work in</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk: A&DS may not be able to deal with future financial challenges and deliver required savings without adversely impacting service delivery.</p>	<p>incorporate a revised approach to service delivery and new ways of working.</p> <p>2021/22 Update: A&DS have prepared a 10-year Corporate Strategy 2021-31 which details the priorities and outcomes of A&DS in relation to their revised approach to service delivery. This sits alongside the 3-year Corporate Plan and five-year financial forecasts.</p> <p>The five-year financial forecasts should be monitored and revised as more up to date information becomes available to ensure informed financial planning decisions are made.</p>	<p>the most efficient and effective way.</p> <p>We will review our five-year financial forecasts when updated information is available.</p> <p>We will continue to monitor the financial sustainability of A&DS and take appropriate actions.</p> <p>Responsible officer Jim MacDonald</p> <p>Revised date 31 January 2023</p>
<p>3. Performance Report</p> <p>Improvements are required in relation to identifying and disclosing performance objectives with measurable outcomes against which performance can be reported. This should include unbiased indicators, incorporating qualitative, quantitative, and prior year information and highlighting trends in indicators.</p> <p>Risk: A&DS do not fully comply with sectoral and legislative requirements</p>	<p>A&DS should ensure measurable outcomes are identified, against which performance can be reported, that align with the new 10-year strategy.</p> <p>2021/22 Update: Management prepare detailed and comprehensive performance reports that clearly outline performance against the 10-year strategy. Performance report updates are regularly reported to the Audit Committee. A&DS should further develop the performance report within the annual report and accounts to include details of performance against key outcome measures. The performance information should incorporate quantitative and trend</p>	<p>In Progress</p> <p>Revised action</p> <p>We will ensure the performance report within the annual report and accounts is updated in future to include details of performance against key outcome measures. This performance information will aim to include quantitative and trend information.</p> <p>Responsible officer Sue Reynolds</p> <p>Revised date 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
	information as data becomes available.	

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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