



*cutting through complexity*

# Architecture+Design Scotland

Annual audit report to the Board of Architecture &  
Design Scotland and the Auditor General for Scotland

For the year ended 31 March 2016

17 October 2016

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### About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Architecture + Design Scotland ("A+DS") and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

### Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to A+DS, telephone 0131 527 6673 email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# **Executive summary**

## Audit conclusions

- We have issued an unqualified audit opinion on the financial statements of Architecture & Design Scotland ('A+DS'). There were no matters to follow up from previous audits.

## Financial position

- The result for 2015-16 was total comprehensive income of £1.849 million (2014-15: £1.991 million) and expenditure of £1.842 million (2014-15: £1.979 million). The lower activity is a result of lower 'other income' and tight control over costs. The surplus for the year was £0.007 million. Pages 6 – 7
- A+DS held cash of £0.238 million as at 31 March 2016, with net liabilities of £0.013 million. This is reduced from net liabilities of £0.02 million in 2014-15. The financial statements have been prepared under the assumption that the organisation is a going concern. In view of the continued support from the Scottish Government and the forecast results, we concur with the going concern assumption. Pages 6 – 7
- The 2016-17 budget was set in line with the corporate strategy 2014-17 and shows a surplus of £0.02 million. The budget assumes consistent core grant-in-aid funding of £1.68 million and total budgeted expenditure of £1.659 million (2015-16: £1.842 million). The reduced expenditure compared to the prior year relates primarily to the accommodation costs at the Lighthouse. Page 7

## Financial statements and related reports

- We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted and unadjusted audit differences; independence; and changes to management representations. Pages 8 – 14

## Wider scope matters

- We consider that the finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no control deficiencies or audit adjustments were identified. This is supported by regular accurate reporting and scrutiny by senior management and those charged with governance. Given the small team, financial experience is inherently concentrated on a limited number of individuals. Page 16
- A+DS has sound and well-established governance arrangements, which ensure effective scrutiny, challenge and transparency on decision making. The Audit Committee is provided with a comprehensive information pack ensuring transparency over decision making. Page 17
- We consider that A+DS is a going concern. Management has sought to reduce staff and rental costs significantly through an accommodation review and revised staffing structure. In addition, the forecast surplus for 2016-17 would return A+DS to a net assets position. Funding is confirmed by Scottish Government on an annual basis, which limits the ability for medium term planning and compromises the financial sustainability of A+DS. Page 18
- A+DS has strong controls over expenditure, with a scheme of delegated authority to support appropriate authorisation and regular budget monitoring by senior management and Board. Page 18

# Executive summary

## Scope and responsibilities

### Purpose of this report

The Auditor General for Scotland (“the Auditor General”) has appointed KPMG LLP as auditor of Architecture & Design Scotland (“A+DS”) under the Public Finance and Accountability (Scotland) Act 2000 the Act”. The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at A+DS and the Auditor General. The scope and nature of our audit were set out in the audit strategy document which was presented to the Audit Committee at the outset of the audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

### Accountable officer responsibilities

The Code sets out A+DS’ responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements 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.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to directors and our presentation to the Audit Committee, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

# Financial position

### Financial position: statement of comprehensive income

As shown in the table below, there is a 2015-16 net surplus of £0.007 million (2014-15: £0.011 million), which is transferred to reserves.

Statement of comprehensive income			
	2015-16 £000	2014-15 £000	Movement £000
Revenue	1,849	1,991	(142)
Staff costs	(1,189)	(1,175)	(14)
Other expenditure	(653)	(805)	152
<b>Operating surplus</b>	<b>7</b>	<b>11</b>	<b>(4)</b>
Finance cost	-	-	-
<b>Surplus before tax</b>	<b>7</b>	<b>11</b>	<b>(4)</b>
Taxation	-	-	-
<b>Surplus for the year</b>	<b>7</b>	<b>11</b>	<b>(4)</b>

Source: KPMG analysis of A+DS's annual accounts 2015-16.

### Grant-in-aid

The significant decrease in revenue is a result of a £0.05 million non-recurring grant-in-aid core funding provided during 2014-15, and a reduction in other income generated compared to 2014-15.

### Other income

Other income comprises deferred income brought forward from 2014-15 for recognition and utilisation in the year to 31 March 2016, as well as non-core income. The decrease compared to the prior year reflects the lower deferred income brought forward balance and a reduction in Stalled Spaces income.

Total income recognised during the year is reconciled to the cash received below:

Income reconciliation	£000
Cash received	1,934
Income deferred from 2014-15	175
Income deferred to 2016-17	(285)
Income accrued in 2015-16	55
Reverse income accrued in 2014-15	(30)
<b>Income per financial statements</b>	<b>1,849</b>

Source: audit working papers

### Staff costs

Staff costs increased compared to the prior year, reflecting increases to ensure alignment with Scottish Government pay scales. Staff costs continue to comprise the majority of spend, however the revised staffing structure has facilitated a less expensive mix of employees; with no reduction in heads but a lower staff cost.

### Other expenditure

A dilapidation provision of £0.043 million was recognised as at 31 March 2015 and reflected in other expenditure, therefore part of the decrease in other expenditure relates to this significant charge in the prior year.

In addition, there was a £0.019 million reduction in payments to third parties for services related to exhibitions and a £0.062 million reduction in Stalled Spaces grants awarded compared to the prior year.

### Financial position: balance sheet

Current assets at 31 March 2016 were higher than the prior year, reflecting the surplus for the year.

Cash balances were higher than the prior year as a result of greater unspent income to be deferred to 2015-16. This treatment was agreed with the sponsor division.

Trade payables decreased by £0.025 million, in line with the decrease in other expenditure in 2015-16 compared to 2014-15. This was offset by an increase in other payable, specifically deferred income.

#### Statement of financial position

	2015-16 £000	2014-15 £000	Movement £000
Total non-current assets	21	26	(5)
Trade and other receivables	120	133	(13)
Cash and cash equivalents	238	184	54
<b>Total current assets</b>	<b>358</b>	<b>317</b>	<b>41</b>
<b>Total assets</b>	<b>379</b>	<b>343</b>	<b>36</b>
Trade and other payables	(349)	(320)	29
Non-current assets less net current liabilities	<b>30</b>	<b>23</b>	<b>7</b>
Non-current liabilities- provisions	(43)	(43)	-
<b>Net liabilities</b>	<b>(13)</b>	<b>(20)</b>	<b>(7)</b>

Source: KPMG analysis of A+DS' annual accounts 2015-16.

### Financial plans 2016-17 and beyond

The proposed budget for 2016-17, set in line with the 2014-17 corporate strategy, incorporates expenditure of £1.659 million which is £0.183 million lower than the actual expenditure for 2015-16.

The budget includes consistent core grant-in-aid funding of £1.68 million. This results in a budgeted surplus of £0.02 million.

### Going concern

Management considers it appropriate to adopt the going concern basis for the preparation of financial statements. It considers that the grant-in-aid from the Scottish Government, other income, cost savings as a result of the accommodation review and the available cash balance are sufficient to ensure that A+DS is able to meet debts as they fall due.

As at 31 March 2016 A+DS had net liabilities of £0.013 million. The 2016-17 budgeted surplus of £0.02 million will return the organisation to a net assets position, therefore we concur that the going concern assumption is appropriate on the basis of the continued support from the Scottish Government and the net assets forecast.

### Conclusion

A+DS is budgeting a surplus for 2016-17 and has continued support from the Scottish Government. We are content that the going concern assumption is appropriate.



A large blue trapezoidal graphic on the left side of the page, tapering from left to right. It contains the text 'Financial statements and related reports' in white.

# **Financial statements and related reports**

#### Audit opinion

Our audit work is complete and following approval of the financial statements by the Board we issued an unqualified opinion on the truth and fairness of the state of A+DS's affairs as at 31 March 2016, and of the surplus for the year then ended. There are no matters on which we are required to report by exception.

#### Financial reporting framework, legislation and other reporting requirements

A+DS is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the FReM. Our audit confirmed that the financial statements have been prepared in accordance with the FReM and relevant legislation.

#### Regularity

Our audit work, as outlined on the following pages, has concluded that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

#### Statutory reports

We have not identified any circumstances to notify the Auditor General that indicate a statutory report may be required.

#### Other communications

We did not encounter any difficulties during the audit. There were no significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that in our professional judgement, are significant to the oversight of the financial reporting process.

#### Audit misstatements

There were no audit adjustments required to the draft annual accounts and there are no unadjusted audit differences.

#### Written representations

There are no changes to the standard representations required for our audit from last year.

#### Materiality

We summarised our approach to materiality in the audit strategy document. On receipt of the financial statements we reviewed our materiality levels. Whilst total expenditure per the financial statements (£1.842 million) was lower than that used to calculate planning materiality (£1.9 million), we concluded that our planning materiality of £38,000 (2% of budgeted expenditure) remains appropriate. We report all misstatements greater than £1,900.

#### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered and that the regularity of income and expenditure was in accordance with regulations;
- communicated with internal audit and reviewed its reports on risk management and project management as issued to the Audit Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgements made by management and considered for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Audit Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

#### Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 27 June 2016. This included the strategic report and the directors' report, which encompasses the corporate governance report and the staff report. There was evidence of accountability and ownership of working papers.

#### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures on the following pages, in order that the Audit Committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- Income recognition fraud risk; and
- Management override of controls fraud risk.

Other focus areas:

- Expenditure; and
- Trade and other payables.

We have no changes to the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to this matter. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>Although the majority of A+DS's income is received via grant-in-aid from the Scottish Government and agreed in advance of the year, our work in prior years has indicated significant levels of deferred income. As a result, we have assessed that there is a significant risk over income recognition.</p>	<p>The following substantive testing was performed, with no exceptions identified:</p> <ul style="list-style-type: none"> <li>■ vouched all significant grant income to supporting documentation; and</li> <li>■ agreed all significant accrued and deferred income balances to supporting documentation, and ensured that the populations had been correctly calculated as at year-end.</li> </ul>	<p>We concluded that income is correctly recognised in the financial statements.</p>
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of A+DS.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, to identify significant transactions that are outside the organisation's normal course of business, or are otherwise unusual. No such transactions were identified.</p>	<p>We identified no instances of management override of controls.</p>

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Accounting for expenditure</b></p> <p>As other expenditure comprises a number of categories, including project spend which may span a number of financial years, there are inherent risks over its correct disclosure and that of any related creditor balances.</p>	<p>In order to conclude on accounting for expenditure we:</p> <ul style="list-style-type: none"> <li>■ tested key controls around spend and regularity including purchase invoice authorisation and bank reconciliations, with no exceptions noted;</li> <li>■ performed analytical reviews of expenditure by category;</li> <li>■ agreed rental costs to the lease agreements;</li> <li>■ performed tests of detail over the largest categories of expenditure and agreed items sampled to supporting documentation; and</li> <li>■ performed expenditure cut off testing.</li> </ul>	<p>We concluded that expenditure is correctly recognised in the financial statements.</p>
<p><b>Accounting for trade and other payables</b></p> <p>In previous years, the trade and other payables balance comprised accrued expenditure and income deferred per agreement with the Scottish Government.</p> <p>Due to the project-based nature of expenditure, there is a risk that the accruals disclosed as at 31 March are overstated and do not reflect work undertaken in the year.</p>	<p>The following substantive testing was performed, with no exceptions identified:</p> <ul style="list-style-type: none"> <li>■ review of the calculation of trade payable balances as at 31 March 2016;</li> <li>■ test of detail on individual accrual balances to confirm correct recognition within the financial statements; and</li> <li>■ analytical review of the overall trade payable balance.</li> </ul>	<p>We concluded that trade and other payables are correctly recognised in the financial statements.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Strategic and directors' report</b>	<p>A+DS, as a registered company, must comply with the Companies Act and is not required to produce a performance and accountability report to comply with FReM chapter 5.</p> <p>A strategic report and directors' report are included in the annual accounts. These outline the performance overview and the future plans and developments in line with their strategic objectives.</p>	<p>We are satisfied that the information contained within strategic and directors' report is consistent with the financial statements and in line with requirements.</p> <p>We reviewed the contents of the strategic and directors' report against the guidance issued by HM Treasury and are content with the proposed report.</p>
<b>Remuneration and staff report</b>	<p>The remuneration and staff report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>Changes were made to the Scottish Public Finance Manual guidance on governance statement requirements for reporting on controls for programme and project management, including compliance with the ICT assurance framework (where applicable) as well as details of any significant lapses of data security.</p> <p>The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on A+DS's governance framework, operated internal controls, the work of internal audit, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.</p>	<p>We are satisfied that the annual governance statement is prepared in line with relevant guidance and is consistent with the governance framework in place at A+DS and our understanding of the organisation.</p>

#### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by A+DS to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under the FReM.

Financial statement disclosures were considered against requirements of the FReM. No departures from these requirements were identified.

#### Future accounting and audit developments

There are no significant changes to the FReM for 2016-17.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

**Wider scope**



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

We carried out audit tests to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget monitoring processes.* We found these to be robust, with regular accurate reporting and scrutiny by senior management, the Audit Committee and the Board.
- *Consideration of the finance function and financial capacity.* There is appropriate financial capacity to ensure effective management, given the size and complexity of the organisation. We note there were no audit adjustments and the financial statements were received in line with the agreed timetable. We note that for a period within the year, there was a vacancy in the finance function.

### Conclusion:

The finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified.

We are required to provide specific conclusions on the following areas which relate to financial management and support our overall conclusion on this audit dimension.

### Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Controls tested around significant risks include authorisation of purchase invoices and bank reconciliations.

**Conclusion:** Our work concluded that the above controls relating to financial systems and procedures are designed appropriately and operating effectively.

### Arrangements for the prevention and detection of fraud and error

Procedures and controls related to fraud are designed and implemented effectively. Expenditure is reviewed and authorised by appropriate finance personnel and senior management. In 2015-16 no significant or other fraud or irregularity was identified by management, internal audit or through the course of our external audit work.

**Conclusion:** A+DS has appropriate arrangements to prevent and detect fraud.

### Standards of conduct and the prevention and detection of corruption

We consider that A+DS has appropriate arrangements to prevent and detect inappropriate conduct and corruption. The arrangements include policies and codes of conduct for staff and Board members, supported by whistle blowing procedures consistent with the Public Interest Disclosure Act. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at A+DS. Entity level controls were also considered, such as the staff handbook and register of interests.

**Conclusion:** A+DS has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

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.

In considering governance and transparency at A+DS we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny.* A+DS demonstrates effective scrutiny, challenge and transparency on decision making through various levels of reporting that we reviewed, including the management reporting to the Board and Audit Committee. Decisions are transparent as actions are documented within the Board and Audit Committee minutes.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting was found to be of a high quality, accurate and transparent. Management reports are comprehensive and allow senior management and those charged with governance good oversight.
- *Reading the annual governance statement,* as discussed on page 13.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

#### Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of A+DS' risk and control environment. This involved testing entity wide controls, such as procedures around organisational oversight via a review of Audit Committee and Board minutes.

**Conclusion:** Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for A+DS.

#### Internal audit

Internal audit (Chiene and Tait) have carried out two reviews during the year ended 31 March 2016, risk management and project management.

**Conclusion:** We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

#### Conclusion:

A+DS has sound and well-established governance arrangements that ensure effective scrutiny, challenge and transparency on decision making, through high quality reporting.

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

In considering financial sustainability of A+DS we performed the following work:

- *Consideration of key risks over financial sustainability.* Management accounts are presented to the Audit Committee on a quarterly basis and key messages are escalated to the Board. In addition, reports are made available for key management on a monthly basis, and project expenditure is tightly regulated within finance to ensure that there are funds available throughout the year to deliver aims.
- A+DS have taken steps to reduce expenditure through its accommodation review and revised staffing structure. The new lease at the Lighthouse will result in £0.07 million savings in 2016-17.
- Scottish Government confirms grant-in-aid on an annual basis which compromises the financial sustainability of A+DS, since it is reliant on such funding.
- *Consideration of diversity of income streams.* The bulk of funding is provided through the core grant-in-aid and A+DS has focussed on cost reduction rather than diversifying its income streams, although it has generated other income through being awarded other grants and charging for some services.

### Conclusion:

A+DS has an agreed level of grant-in-aid income for its core activities for the year ahead. A+DS has sought to reduce staff and rental costs and forecast a surplus in 2016-17 which will return it to a net assets position and provides further comfort over its going concern. Financial sustainability is reliant on continued support from the Scottish Government.

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money throughout our testing. Some of the areas where we had a specific focus on value for money are:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services.* No exceptions were found through our testing.
- *Reviewing the scheme of delegation and financial limits:* The scheme of delegated authority was updated in February 2014 and sets out the roles of the Board, Chief Executive and management team. Financial limits are set by grade for proposing expenditure (e.g. raising a purchase order) and for separately authorising the same.
- *Outsourcing:* A+DS outsources for both internal audit and payroll processes. The use of third parties to provide core services reduces administrative and staff costs within the organisation without impacting on their provision.
- *Accommodation review and review of existing leases:* A+DS reduced the space taken at the Lighthouse building in order to make cost savings, without impacting its ability to deliver services.

### Conclusion:

A+DS strives to achieve value for money in its delivery of services. This has been seen through controls over expenditure authorisation, procurement and the scheme of delegated authority. We are content that the value for money arrangements are appropriate for an organisation of this size..

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made recommendations to the Scottish Government.

Management completed a follow up questionnaire and we submitted a return to Audit Scotland summarising our findings and conclusions. This work concluded on the following key issues:

- **Planning:** There is no formal workforce plan in place but we consider this reasonable for a body of this size. The headcount remains fairly static with a standard recruitment process to replace any leavers. A+DS follows the Scottish Government 'No Redundancy Policy' as this applies to A+DS staff. Regular forecasting of likely staff costs are calculated with the knowledge of No Compulsory Redundancies.
- **Service delivery:** Recently A+DS undertook an organisation wide review to change the way it works, moving away from working within programmes to working on a project basis with the objective of reducing costs and better focussing on Outcomes. Welfare managers were introduced to assist with the monitoring of potential impact on staff when moving to working on a project basis.
- **Partnership working:** A+DS actively looks for opportunities for joint working with various other public sector bodies. A+DS has had one employee on secondment with another body and is a member of various public sector resource sharing bodies.
- **Reporting:** Workforce costs including salaries and training costs are calculated. This is communicated to the Board at a summary level. Throughout the year actual expenditure in all cost areas will be considered in comparison to the budgeted costs. Arrangements around reporting are considered appropriate for an organisation of this size. In addition, A+DS demonstrate good practice in relation to staff wellbeing as a result of the welfare managers and the employee assistance programme.
- **Challenge and scrutiny:** The Board reviews management information comparing the budgeted staff cost position to actual on a regular basis. This allows management to make informed decisions on a timely basis.

# Appendices

To the Audit Committee members

### Assessment of our objectivity and independence as auditor of Architecture and Design Scotland (“A+DS”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability

- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Governance and Audit Committee.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

*KPMG LLP*

# Appendix two

## Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	<p>Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions.</p> <p>Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.</p>	Page 17 sets out our conclusion on these arrangements.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income.</p> <p>Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.</p> <p>Provide an opinion on the regularity of the expenditure and income.</p>	Page 9 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports and grant claims.	Page 13 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General when circumstances indicate that a statutory report may be required.	Page 9 sets out any notifications we have made to the Auditor General.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 16 sets out our conclusion on these arrangements.
WGA returns and grant claims	<p>Examine and report on WGA returns</p> <p>Examine and report on approved grant claims and other returns submitted by local authorities.</p>	A+DS is below the threshold for the completion of audit work on the WGA return.

# Appendix two

## Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 16 sets out our conclusion on these arrangements. A+DS did not participate in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 and 7 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Page 6 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 sets out our conclusion on the body's financial position including reserves balances. Page 7 sets out our conclusion on the body's financial strategies and longer term financial sustainability.
Best Value	Review and conclude on the effectiveness and appropriateness of arrangements of accountable officers specific responsibility to ensure that arrangements have been made to secure Best Value.	Page 17 sets out our conclusion of the body's arrangements.





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