

Architecture and Design Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Architecture and Design Scotland

February 2017

Who we are

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

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



About us

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

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

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

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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. 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

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Architecture and Design Scotland (A&DS). 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

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Fraud over income</p> <p>The majority of A&DS's income is grant in aid from the Scottish Government, however historically there has been a significant level of deferred income. In accordance with ISA240, we have assessed that there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> A&DS receive a grant letter from Scottish Government detailing grant in aid to be received in the financial year. A&DS complete monthly NDPB Finance Returns which are submitted to Scottish Government. At the end of the financial year, A&DS complete a NDPB Cash Funding Form detailing all grant in aid received. This 	<ul style="list-style-type: none"> Substantive testing of transactions after the year end to confirm income has been correctly accounted for.

Audit Risk	Management assurance	Planned audit work
	is checked and agreed with Scottish Government. Detailed records of income are maintained and full detailed audit working papers are prepared for the audit.	
<p>3 Accounting for expenditure</p> <p>Due to the nature of A&DS's expenditure on projects which span across several years there is a risk that expenditure is not accounted for in the correct financial year. Expenditure on projects to 31st March is based on estimates of spend to date on projects.</p>	<ul style="list-style-type: none"> All open Purchase Orders at every year end are scrutinised to determine work completed to date in order to calculate accruals. This is done by considering evidence from suppliers and A&DS Project Managers. Full detailed audit working papers are prepared with evidence if appropriate. 	<ul style="list-style-type: none"> Detailed testing of accruals and prepayments. Substantive testing of project expenditure to confirm it has been accounted for in the correct financial year.
<p>4 Accounts Direction</p> <p>Our planning work has identified two Accounts Directions exist for A&DS, which require compliance with different accounting frameworks. We have been unable to ascertain the correct direction which A&DS should follow. There is a risk that A&DS do not prepare the accounts in the correct format.</p>	<ul style="list-style-type: none"> We will raise with the Scottish Government to clarify requirements. 	<ul style="list-style-type: none"> Discussions with Audit Strategy. Review progress of consultation with Scottish Government. Confirm financial statements are prepared in accordance with relevant accounting regulations.

Reporting arrangements

3. 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.

4. 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 officers to confirm factual accuracy.

5. We will provide an independent auditor's report to A&DS and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. 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 course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	2 February 2017	11 February 2017
Annual Audit Report including ISA 260 requirements	7 August 2017	14 August 2017
Signed Independent Auditor's Report	30 August 2017	14 August 2017

Audit fee

6. The agreed audit fee for the 2016/17 audit of A&DS is £7,860. In determining the audit fee we have taken account of the risk exposure of A&DS and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on, 26th May 2017.

7. 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

8. 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.

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

Appointed auditor

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

11. Auditors in the public sector give an independent opinion on 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

12. 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 A&DS and the associated risks which could impact on the financial statements
- completing initial system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how A&DS 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.

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

- whether they give a true and fair view of the state of the affairs of the company and the surplus or deficit
- whether they have been properly prepared in accordance with 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

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for A&DS are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality level	Amount
Planning materiality - 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.	£18,000

Materiality level	Amount
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£13,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality rounded to a memorable numeric.	£500

15. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the strategic report, governance statement and remuneration report. Any issue identified will be reported to the Audit Committee.

Timetable

16. 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. A proposed 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 financial statements with complete working papers package	26 May 2017
Latest date for final clearance meeting with Chief Executive	3 August 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	7 August 2017
Agreement of audited unsigned financial statements.	14 August 2017
Independent auditor's report signed	30 August 2017

Internal audit

17. 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.

18. 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.

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

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

21. 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 medium term (two to five years) and longer term (longer than five years).

Financial management

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

Governance and transparency

23. 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. No performance measures are currently in place, however we have established that management are in the process of implementing a balanced scorecard and will monitor progress.

24. From review of A&DS's website there are no minutes available from the Audit Committee or the Board from April 2015. The website should be updated to ensure transparency and we would recommend that A&DS keep the information on the website as current as possible.

Value for money

25. Value for money refers to using resources effectively and continually improving services.

26. In accordance with paragraph 53 of the Code of Audit Practice, A&DS will be audited under the small body provision in 2016/17. We will assess this annually throughout the audit appointment.

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for A&DS is Carole Grant, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Carole Grant, 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 A&DS.

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 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.

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