

# Architecture and Design Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

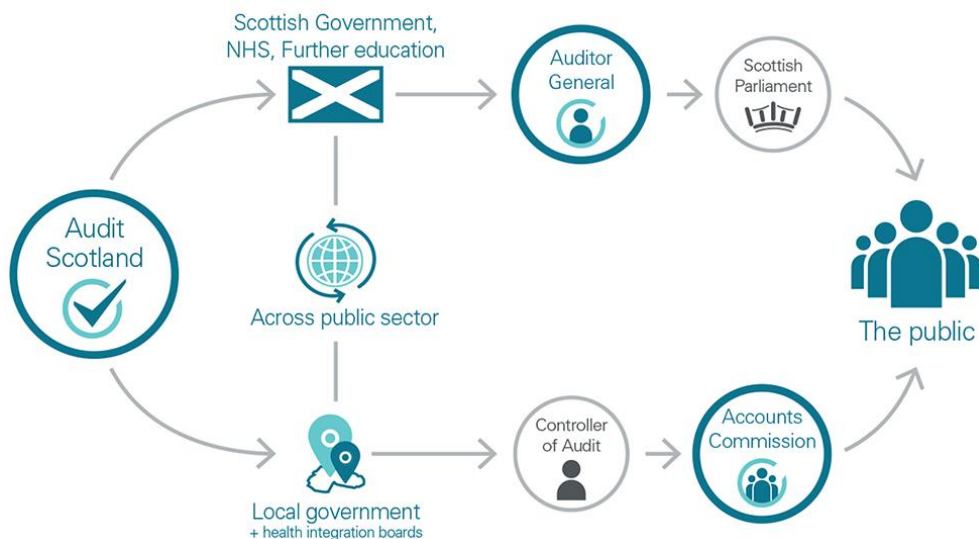
Prepared for Architecture and Design Scotland and the Auditor General for Scotland

31 August 2018

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2017/18 annual report and accounts

- 1** In our opinion Architecture and Design Scotland's financial statements give a true and fair view and were properly prepared and, expenditure and income were in accordance with applicable enactments and guidance.
- 2** The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements.
- 3** A prior year restatement has been processed due to a material change in Architecture and Design Scotland's accounting policy for non-current assets.

## Financial sustainability and governance statement

- 4** A surplus of £70,158 was generated in 2017/18 against the targeted breakeven position.
- 5** Reserves of £238,230 have been generated over several years. To support effective financial planning and efficient use of resources Architecture and Design Scotland should implement a reserves policy.
- 6** The Management Statement and Financial Memorandum should be reviewed and updated, and management should ensure that Architecture and Design Scotland comply with the requirements.
- 7** Architecture and Design Scotland should review the content of the Performance Report and Governance Statement to improve the information presented.
- 8** The unaudited annual report and accounts should be approved for issue prior to submission to external audit.

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# Introduction

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**1.** This report summarises the findings from our 2017/18 audit of Architecture and Design Scotland (A&DS).

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the 12 February 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the A&DS annual report and financial statements
- consideration of the financial sustainability and Governance Statement.

**3.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:

- financial sustainability
- financial management
- governance and transparency
- value for money.

**4.** The [Code of Audit Practice 2016](#) 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.

**5.** As highlighted in our 2017/18 Annual Audit Plan (paragraph 22), due to the volume and lack of complexity of the financial transactions, and nature and size of A&DS, we applied the small body provisions of the Code to the 2017/18 audit of A&DS.

**6.** 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. A&DS is also responsible for compliance with legislation and 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 guided by the auditing profession's ethical guidance.

**8.** As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

**9.** 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.

**10.** 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.

**11.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £7,970 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**12.** Our aim is to add value to A&DS by providing insight on financial sustainability and by identifying areas of improvement and recommending good practice. In so doing, we aim to help the A&DS promote improved standards of financial planning, better management and decision making.

**13.** This report is addressed to the board 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.

**14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**In our opinion A&DS's financial statements give a true and fair view and were properly prepared; expenditure and income were 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.**

**A prior year restatement has been processed due to a material change in A&DS's accounting policy for non-current assets.**

### Audit opinions on the annual report and accounts

**15.** The annual report and accounts for the year ended 31 March 2018 were approved by the board on 10 September 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- 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 accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

**16.** We received the unaudited annual report and accounts on 26 June 2018 in line with our agreed audit timetable.

**17.** The unaudited annual report and accounts provided for audit were complete and of a satisfactory standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

**18.** [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

## Materiality

**19.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**20.** We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1 percent of gross expenditure for the year ended 31 March 2018.	£18,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50 percent of overall materiality.	£9,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000

Source: Annual Audit Plan 2017/18

## How we evaluate misstatements

**21.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. The only material adjustment to the unaudited accounts was to apply the change in accounting policy for non-current assets to the comparative (2016/17) figures within the 2017/18 accounts (Exhibit 2).

**22.** There was one unadjusted error above the reporting threshold (Exhibit 3), this relates to the recognition of £1,500 of expenditure in 2017/18 that should have been processed in 2018/19.

## Significant findings from the audit (ISA 260)

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.



## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Change in non-current asset capitalisation threshold</b></p> <p>Prior to 2017/18, A&amp;DS had an informal policy for the capitalisation of non-current assets with a threshold of £50. Management has reassessed the accounting policy and implemented a formal capitalisation threshold of £5,000, which is in line with similar public-sector bodies.</p> <p>In accordance with accounting requirements, this material change in policy has been applied to all figures presented in the 2017/18 annual accounts and has resulted in the restatement of comparative figures.</p>	<p>The restatement has been processed, no further action is required.</p>

## Exhibit 3

### Summary of uncorrected misstatements

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £	Cr £	Dr £	Cr £
Prepayments			1,525	
Expenditure		1,525		

### Follow up of prior year recommendations

**24.** We have followed up actions previously reported and assessed progress. Three agreed actions were raised in 2016/17 and details of progress against these has been outlined in [Appendix 1](#)

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# Part 2

## Financial sustainability and governance statement

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### Main judgements

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**A surplus of £70,158 was generated in 2017/18 against the targeted breakeven position.**

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**Reserves of £238,230 have been generated over several years. To support effective financial planning and efficient use of resources A&DS should implement a reserves policy.**

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**The Management Statement and Financial Memorandum should be reviewed and updated, and management should ensure that A&DS comply with the requirements.**

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**A&DS should review the content of the Performance Report and Governance Statement to improve the information presented.**

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**The unaudited annual report and accounts should be approved for issue prior to submission to external audit.**

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### Financial Performance in 2017/18

**25.** The main financial objective for the A&DS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. A&DS reported a surplus of £70,158 in the 2017/18 audited accounts.

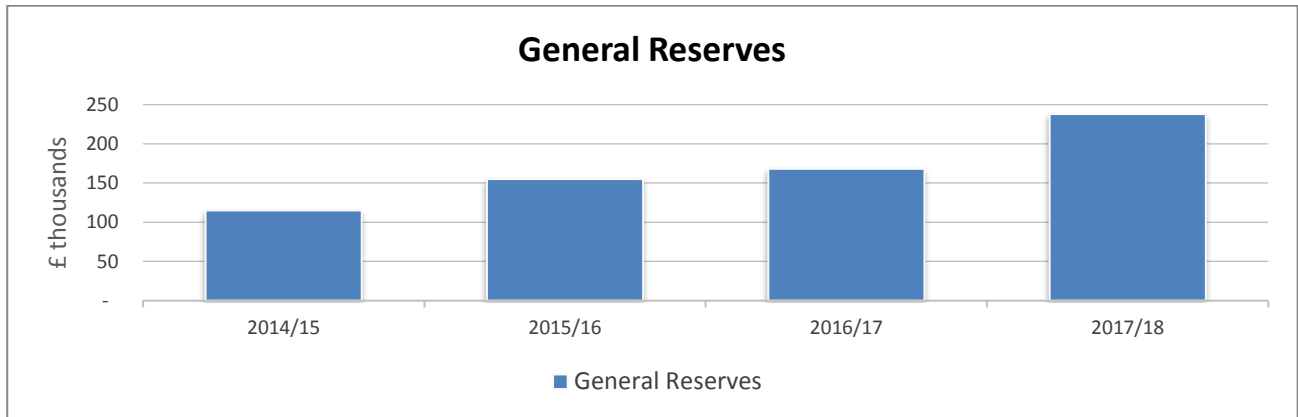
**26.** Management accounts are presented on a cash basis and reported a surplus of £85,343, meaning that the year-end budget reporting differed significantly from the surplus reported within the annual report and accounts.

### Accumulation of Reserves

**27.** The 2017/18 annual accounts show a positive financial position with general reserves of £238,230 (2016/17: £168,072). As outlined in Exhibit 4 the general reserves have continued to increase over several years.

**Exhibit 4**

## Increase in reserves from 2014/15 to 2017/18



**28.** To support effective financial planning organisations should have a reserves policy in place. A reserves policy explains why an organisation is holding a certain level of reserves and gives confidence that the organisation's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

**29.** Deciding the level of reserves required is an important part of financial management and forward financial planning. Failure to do this may result in reserves levels which are either:

- higher than necessary and may tie up money unnecessarily
- too low, increasing the risk to carry on its activities in future in the event of financial difficulties.

**30.** A reserves policy provides essential accountability to those charged with governance and other stakeholders. It will explain how reserves are used to manage uncertainty and, if reserves are held to fund future purchases or activities, it will explain how and when the reserves will be spent. It provides assurance that the finances are actively managed and its activities are sustainable. A reserves policy will demonstrate:

- good stewardship and active financial management
- capacity to manage unforeseen financial difficulties
- an understanding of why funding is needed to undertake a particular project
- the organisation can meet its financial commitments
- why the organisation has unspent funds at the year-end.

**31.** Developing a reserves policy is an important part of the internal financial management and it will assist:

- strategic planning, for example considering how new projects will be funded
- the budget process, for example is it a balanced budget or do reserves need to be drawn down or built up?
- the budget and risk management process by identifying any uncertainty in future income streams.



### Recommendation 1

## A&DS should implement a reserves policy.

### Internal Budget Reporting

**32.** A&DS prepare and present their internal budget reports on a cash rather than accruals basis. While the monitoring of A&DS' cash position is important, reporting on a cash basis makes it difficult for the Board to compare and scrutinise expenditure between different periods. In addition, reporting on a cash basis means that there is not a clear link to the year-end outturn position within the financial statements, as outlined in paragraph 25 above.

### Short term financial planning

**33.** A&DS is funded directly by Grant in Aid received from the Scottish Government. The A&DS Board approved the 2018/19 draft budget in February 2018 with a resource allocation of £1.67 million which is unchanged from the 2017/18 budget allocation.

**34.** Additional funding is received from the Scottish Government and from other public sector bodies for specific projects, £67,500 in 2017/18.

### Medium to long term financial planning

**35.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**36.** Management are currently in the process of drafting a 10-year corporate strategic plan to follow on from the current long term plan which covers the period to 2020.

**37.** A&DS receives funding from the Scottish Government on an annual basis. Scenario planning which forecasts over a 5 year period is carried out to assess the impact of any reduction in funding on the ability of A&DS to achieve financial balance.

**38.** A&DS' expenditure is largely made up fixed costs and it is therefore challenging for management to respond to potential decreases in funding or increases in cost drivers (e.g. payroll inflation). An adverse change in income or expenditure could impact the available resources A&DS has to allocate towards projects (as one of the main variable costs) and hence prevent A&DS from meeting its strategic objectives.

**39.** From the work carried out we have concluded that improvements could be made to A&DS' financial planning arrangements. Scenario planning is in place to highlight future financial risks; however, the lack of a reserves policy may limit the ability of A&DS to respond to these risks.

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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.

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### Recommendation 2

## A&DS should use their reserves policy to support effective financial planning.

## Management Statement

40. A&DS' Management Statement and Financial Memorandum set out the framework under which it operates and A&DS' relationship with the Scottish Government. They include details on the overall aims of A&DS, the responsibilities of those charged with governance and the financial authority of A&DS.

41. The Management Statement and Financial Memorandum have not been updated since 2008, despite a requirement that this is reviewed by the Directorate every 2-3 years. There is a risk that the document is out of date and that guidance over the key operations of A&DS is incorrect.

42. We noted a specific inconsistency with the Financial Memorandum, which states:

- Cash balances accumulated during the course of the year from grant in aid shall therefore be kept at the minimum level consistent with the efficient operation of Architecture and Design Scotland. They should not exceed £50,000.
- No Grant in Aid shall be paid into any reserve held by Architecture and Design Scotland.

43. The audited annual accounts show A&DS has a cash balance of £377,854 and holds general reserves of £238,230, which is not in line with the Financial Memorandum.



### Recommendation 3

**The Management Statement and Financial Memorandum should be reviewed and updated, and management should ensure that A&DS comply with the requirements.**

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## Content of the Performance Report

44. The Government Financial Reporting Manual (FReM) requires that the annual report includes a Performance Report which provides information on the business model and structure of A&DS, performance in year and an explanation of how this links to the annual accounts.

45. During the audit we identified several areas where A&DS did not comply with the requirements of the FReM, which were subsequently amended by management. While the Performance Report in the audited annual report and accounts is consistent with the financial statements and has been prepared in accordance with the accounts direction, there is scope for improvement to the information presented.

46. A&DS should consider examples of best practice to improve the quality of the information presented in their Performance Report to give the reader a fuller picture of its operations and achievements in the year.

## Content of the Governance statement

47. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

48. During the audit we identified several areas where A&DS did not comply with the requirements of the FReM, which were subsequently amended by

management. While the Governance Statement in the audited annual report and accounts is consistent with the financial statements and has been prepared in accordance with the accounts direction, there is scope for improvement to the information presented.

**49.** A&DS should consider examples of best practice to improve the quality of the information presented in their Governance Report to give the better understanding of its governance arrangements.



#### **Recommendation 4**

**A&DS should review the content of the Performance Report and Governance Statement to improve the information presented.**

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### **Approval of the Unaudited Annual Accounts**

**50.** The unaudited accounts are not considered by either the Audit Committee or the Board.

**51.** To allow for appropriate scrutiny and to leave sufficient time for those charged with governance to request changes, it is best practice for the unaudited annual report and accounts to be approved for issue prior to submission to external audit.



#### **Recommendation 5**

**The unaudited annual report and accounts should be approved for issue prior to submission to external audit.**

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# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Reserves Policy</b></p> <p>A&amp;DS does not have a reserves policy.</p> <p><b>Risk</b></p> <p>There is a risk that this will impact on effective financial planning.</p>	<p>A&amp;DS should implement a reserves policy that outlines the level of reserves the organisation believes are prudent to retain and how they intend to utilise these reserves in the short, medium and long term.</p>	<p>A reserves policy has been added to the Notes to the Accounts within the audited Annual Report and Accounts for the year ended 31 March 2018. This reads as follows</p> <p>Reserves</p> <p>“The General Reserve represents the excess of income over expenditure on Grant in Aid funded activities, after adjusting for accruals and prepayments.”</p> <p>We will communicate with our Sponsor, Audit Committee and Board to discuss a Reserves Policy in line with the proposal from Audit Scotland, and to ensure we comply with good practise for public sector bodies.</p> <p>The Director of Operations will be the Responsible officer</p> <p>The agreed date is 31 March 2019.</p>
2	<p><b>Financial planning</b></p> <p>A&amp;DS undertakes scenario planning to highlight future financial risks.</p> <p><b>Risk</b></p> <p>There is a risk the lack of a reserves policy may limit the ability of A&amp;DS to effectively respond to these risks.</p>	<p>A&amp;DS should use their reserves policy to support effective financial planning.</p>	<p>A&amp;DS appreciates the importance of effective financial planning to highlight future financial risks. A&amp;DS currently undertake scenario planning which includes taking account of prepayments and accruals.</p> <p>We will work with our Sponsor, Audit Committee and Board to discuss best practise in relation to financial planning taking into account appropriate policies such as a Reserves Policy.</p>



**No. Issue/risk**

**Recommendation**

**Agreed management action/timing**

			<p>The Director of Operations will be the Responsible officer</p> <p>The agreed date is 31 March 2019.</p>
<p><b>3</b></p> <p><b>Management Statement</b></p> <p>The Management Statement and Financial Memorandum has not been updated since 2008 and A&amp;DS are not currently complying with the requirements relating to levels of cash and reserves.</p> <p><b>Risk</b></p> <p>There is a risk that A&amp;DS are in breach of their Management Statement and Financial Memorandum.</p>	<p>Management should ensure the Management Statement and Financial Memorandum is reviewed and updated and ensure that A&amp;DS comply with requirements.</p>	<p>We have contacted our sponsor at Planning and Architecture Division who has agreed to review and update the Management Statement and Financial Memorandum by 31 March 2019.</p> <p>Our sponsor at Planning and Architecture Division is aware of the level of cash and reserves at A&amp;DS.</p> <p>The cash balance at A&amp;DS was fully reconciled at 31 March 2018 to show the requirements for the cash balance which included trade creditors, dilapidations provision, holiday pay/TOIL provision, VAT liability and project expenditure committed but not invoiced prior to the year end of 31 March 2018. The remaining cash balance is less than £50,000.</p> <p>The Director of Operations will be the Responsible officer.</p>	
<p><b>4</b></p> <p><b>Performance Report and Governance Statement</b></p> <p>Both the Performance Report and Governance Statement comply with statutory guidance, but there is scope for improvement.</p> <p><b>Risk</b></p> <p>There is a risk that the Performance Report and Governance Statement may not give the reader a full understanding of A&amp;DS' operations and governance arrangements.</p>	<p>A&amp;DS should consider examples of best practice to improve the quality of the information presented in their Performance Report.</p>	<p>In addition to the Annual Report and Accounts, A&amp;DS also produce a separate report of A&amp;DS activities in the Annual Review which is published annually and available on the A&amp;DS website.</p> <p>A&amp;DS will continue to review best practise in other organisations and will also continue to work with our Sponsor, Board and Audit Committee to discuss our Annual Review report as well as the Performance Report and Governance Statement within the Annual Report and Accounts to ensure stakeholders gain a full understanding of A&amp;DS'</p>	





No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>operations and governance arrangements.</p> <p>This will be taken into account for the Annual Report and Accounts for the year ended 31 March 2019.</p> <p>The Director of Operations will be the Responsible officer</p> <p>The agreed date is 31 May 2019.</p>
5	<p><b>Approval of the Unaudited Annual Accounts</b></p> <p>The unaudited accounts are not considered by either the Board or Audit Committee.</p> <p><b>Risk</b></p> <p>There is a risk that those charged with governance do not have sufficient opportunity to scrutinise the unaudited accounts prior to being submitted for audit.</p>	<p>The unaudited annual report and accounts should be approved for issue prior to submission to external audit.</p>	<p>A&amp;DS were unaware of the recommendation that unaudited Annual Report and Accounts should be approved for issue by the Board or Audit Committee prior to submission to external audit as this has never been requested by previous auditors.</p> <p>We will take on board your recommendation for improvement and ensure the unaudited Annual Report and Accounts are approved for issue by the Audit Committee prior to submission to external audit for the Annual Report and Accounts for the year ended 31 March 2019.</p> <p>The Director of Operations is the Responsible officer</p> <p>The agreed date is 31 May 2019.</p>
<b>Follow up of prior year recommendations</b>			
1	<p><b>Submission of financial statements and working papers for audit</b></p> <p>The financial statements were not completed in line with the agreed timetable.</p> <p><b>Risk</b></p> <p>Additional time spent on the audit may result in inability to meet deadlines.</p>	<p>All year end journals should be processed before closure of the ledger in the applicable financial year.</p>	<p>Accounts and working papers were received in line with the revised deadline of 22 June 2018. Year-end journals have been processed through the ledger as agreed.</p> <p><b>Prior Year Issue resolved.</b></p>
2	<p><b>FReM compliance</b></p> <p>A&amp;DS has prepared its 2016/17 annual report and</p>	<p>A&amp;DS should consider improved disclosures in 2017/18 in line with the FReM.</p>	<p>A&amp;DS recognises the complexities and challenges of the requirement to comply with both the Companies Act and</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>accounts in line with the requirements of the Companies Act and the Scottish Public Finance Manual (SPFM) as appropriate. However, there are areas where A&amp;DS could improve transparency of the financial statements in line with the FReM.</p> <p><b>Risk</b></p> <p>A&amp;DS's annual report and accounts may not be in line with good practice and transparency principles for public bodies.</p>	<p><b>2017/18 update:</b></p> <p>Grant in aid has been accounted for as income in 2017/18, which is not consistent with the FReM.</p> <p>Scottish Government confirmed that they are content for A&amp;DS adopt this accounting treatment. As the FReM allows for alternative accounting treatments where, "approved by the department responsible for the ALB and the relevant authority", we do not consider this a misstatement.</p> <p>As outlined at risk 4 above A&amp;DS should continue to consider improved disclosures in 2018/19.</p>	<p>the Scottish Public Finance Manual (SPFM), which have differing requirements in certain areas.</p> <p>A&amp;DS have been informed by Finance Department at Scottish Government that all changes to the presentation of the Annual Accounts must be agreed in advance with Scottish Government.</p> <p>A&amp;DS will work closely with Scottish Government and Audit Committee to consider appropriate presentation and disclosures in our Annual Reports and Accounts for the year ended 31 March 2019.</p> <p>The Director of Operations is the Responsible officer</p> <p>Agreed date is 31 May 2019.</p>
3	<p><b>Transparency</b></p> <p>The minutes of Board meetings should be available on A&amp;DS's website however these have not been updated since March 2015.</p> <p><b>Risk</b></p> <p>A&amp;DS is perceived as not transparent in its reporting to the public.</p>	<p>Board papers should be made available on A&amp;DS's website as soon as is practicable.</p> <p><b>2017/18 update:</b></p> <p>The most recent Board minutes available at the time this report was prepared were from November 2017. This is an improvement from the position we reported in 2016/17, however there is scope for further progress.</p> <p>The Board agreed to publish meeting papers in advance of each Board meeting, which has not occurred.</p>	<p>We will ensure Board meeting papers are published on the A&amp;DS website in advance of each Board meeting.</p> <p>The Corporate Services Manager is the Responsible officer.</p> <p>This will be actioned from 1 October 2018.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>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>Errors were noted in accruals and prepayments that impacted expenditure, these were corrected in the audited accounts, except for the error highlighted below (corrections totalled £3,454).</p> <p>One error relating to a prepayment was not corrected and has been highlighted as an uncorrected misstatement (unadjusted error was £1,525).</p> <p>None of the errors were material.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 presumes a risk of fraud over income.</p> <p>Architecture and Design Scotland receives a material amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>No issues were noted.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The risk of fraud over income presumed by ISA 240 is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by Architecture and Design Scotland in delivering services.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Errors were noted in accruals and prepayments that impacted expenditure, these were corrected in the audited accounts, except for the error highlighted below (corrections totalled £3,454).</p> <p>One error relating to a prepayment was not corrected and has been highlighted as an uncorrected misstatement (unadjusted error was £1,525).</p> <p>None of the errors were material.</p> <p>There was no indication the errors were fraudulent.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 2016/17 Significant Audit Issues</b></p> <p>A number of adjustments were processed in the 2016/17 financial statements following findings in the 2016/17 audit. This included material errors in deferred income, accruals, provisions, prepayments and accrued income.</p> <p>Issues were raised regarding the content of disclosures in the Remuneration Report.</p> <p>Additionally, the unaudited financial statements were not received within the agreed timetable in 2016/17.</p> <p>The number of misstatements noted in 2016/17 and the delayed receipt of accounts increases the risk of similar issues in 2017/18.</p>	<p>Focussed testing in the areas where issues were noted in 2016/17.</p>	<p>The unaudited accounts were received in line with the agreed timetable.</p> <p>An error in the recording of prepaid expenses was noted. This was not material and has been corrected in the audited accounts (correction totalled £3,454).</p> <p>Another error was noted in the recording of prepaid expenses, this was not corrected and has been highlighted as uncorrected misstatement. The error was not material (unadjusted error was £1,525).</p> <p>Minor issues were noted relating to the disclosure within the remuneration report, these were corrected in the audit financial statements.</p> <p>No issues were noted on deferred income, accrued income, accruals or provisions.</p>
<p><b>5 Accounting for grant-in-aid</b></p> <p>Architecture and Design Scotland is required to prepare accounts in line with both the FReM (as a non-departmental public body) and the Companies Act (as a limited company). There are some minor differences between these reporting frameworks.</p> <p>For example, grant-in-aid was accounted for as income in 2016/17 in line with Companies Act. It was agreed with the Scottish Government that grant-in-aid would be treated as financing from 2017/18 onwards, in line with the FReM.</p> <p>The nature of reporting under two different reporting frameworks and the specific change in accounting method for grant-in-aid both increase the risk of material misstatement in the accounts.</p>	<p>Early discussions regarding the presentation of grant-in-aid.</p> <p>Focussed testing of grant-in-aid and related disclosures.</p> <p>Consideration of accounting treatment for areas where the FReM and Companies Act differ.</p>	<p>Grant in aid has been accounted for as income in 2017/18, which is not consistent with the FReM.</p> <p>Scottish Government confirmed that they are content for A&amp;DS to adopt this accounting treatment. As the FReM allows for alternative accounting treatments where, “approved by the department responsible for the ALB and the relevant authority”, we do not consider this a misstatement.</p>

Audit risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>6 Recruitment of Chair and board members</b></p> <p>The terms of the current Chair and two further board members (including the Chair of the Audit Committee) end on 31 March 2018.</p> <p>Due to delays in recruitment it is unlikely that new board members will be in place from 1 April 2018.</p> <p>The term of the Chair has been extended for 6 months to mitigate for this delay, however there is a risk that these recruitment delays may impact the effectiveness of the board and sub-committees.</p>	<p>Monitoring of progress.</p>	<p>A new Audit Committee Chair was appointed in February 2018.</p> <p>Three additional board members were recruited and were in place in June 2018.</p> <p>Recruitment of a new Chair is on-going.</p>
<p><b>7 Financial Sustainability</b></p> <p>Grant-in-aid funding from the Scottish Government has remained largely static in cash terms over the past 7 years.</p> <p>Architecture and Design Scotland faces a number of pressures (e.g. pay inflation) that are increasing costs.</p> <p>Architecture and Design Scotland may have to make savings in the future to achieve financial balance and this could impact on its ability to provide services.</p>	<p>Review of Architecture and Design Scotland scenario planning papers presented to the Board.</p>	<p>A&amp;DS reported a surplus in 2017/18 and reserves have increased over several years.</p> <p>This is a positive financial position; however, scenario planning highlights the challenges A&amp;DS faces in relation to the inflexibility of income and expenditure streams.</p> <p>A&amp;DS should implement a reserves policy (recommendation 1) and monitor the use of reserves (recommendation 2) to improve financial planning.</p>

# Architecture and Design Scotland

## 2017/18 Annual Audit Report

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