

Architecture and Design Scotland

2020/21 Annual Audit Report



Prepared for Architecture and Design Scotland and the Auditor General for Scotland
December 2021

Contents

Key messages	3
Introduction	4
1. Audit of 2020/21 annual report and accounts	7
2. Financial sustainability and governance statement	10
Appendix 1. Action plan 2020/21	13
Appendix 2. Significant audit risks	15
Appendix 3. Summary of 2020/21 national performance reports	17

Key messages

2020/21 annual report and accounts

- 1** We recognise that the 2020/21 financial year has been characterised by the significant impact of the Covid-19 pandemic which created additional challenges for both Architecture and Design Scotland (A&DS) and audit staff alike. Consequently, key dates within the financial reporting process have been updated to reflect the statutory deadline to publish the audited 2020/21 accounts.
- 2** Our audit identified no significant adjustments that impact on the A&DS's annual report and accounts. A number of less significant adjustments were identified which have been corrected in the financial statements.
- 3** Following the correction of these adjustments our audit opinions on the annual report and accounts of A&DS are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of A&DS.
- 4** The Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial sustainability and Governance

- 5** A&DS reported an effective surplus of £87,135 in 2020/21 against the targeted breakeven position. As a result, the general reserves balance increased from £252,300 at the start of the financial year to £339,435 as at 31 March 2021.
- 6** The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services.
- 7** A&DS should develop a revised financial strategy which ensures the total balances available are used to support financial sustainability over the medium-term. The financial strategy will require to incorporate a revised approach to service delivery and new ways of working.

Introduction

1. This report summarises the findings from our 2020/21 audit of Architecture and Design Scotland (A&DS).
2. The scope of our audit was set out in our Annual Audit Plan circulated to the members of the Audit Committee following the meeting on 2 March 2021. This report comprises the findings from:
 - an audit of A&DS's annual report and accounts
 - consideration of the financial sustainability and the Governance Statement.
3. The main elements of our audit work in 2020/21 have been:
 - an audit of A&DS's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of financial sustainability and the governance statement.
4. The global coronavirus pandemic has had a considerable impact on A&DS during 2020/21. This has had significant implications, not least for the services it delivers and the suspension of non-essential projects and activities.

Adding value through the audit

5. We add value to A&DS through the audit by:
 - having regular dialogue with senior finance staff
 - sharing intelligence and good practice with the Audit Committee on key challenges as we emerge from Covid restrictions
 - highlighting learning from our experiences working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2020/21 accounts within a revised accounts and audit timetable
 - providing clear and focused conclusions on the appropriateness of the disclosures in the governance statement and financial sustainability.
6. In doing so, we aim to help A&DS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

7. 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 the Scottish Ministers.

8. A&DS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

9. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

10. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the:

- appropriateness and effectiveness of the performance management arrangements
- suitability and effectiveness of corporate governance arrangements, the financial position and
- arrangements for securing financial sustainability.

11. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

12. The [Code of Audit Practice 2016 \(the Code\)](#) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the annual governance statement and the financial sustainability of the body and its services. As highlighted in our 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

13. This report raises matters from our audit. 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.

14. Our Annual Audit Report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

15. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

16. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £8,450 as set out

in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

17. This report is addressed to both A&DS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

18. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit. This is especially appreciated during the ongoing challenging circumstances arising due to the Covid-19 pandemic.

1. Audit of 2020/21 annual report and accounts

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

Main judgements

We recognise that the 2020/21 financial year has been characterised by the significant impact of the Covid-19 pandemic which created additional challenges for both Architecture and Design Scotland (A&DS) and audit staff alike. Consequently, key dates within the financial reporting process have been updated to reflect the statutory deadline to publish the audited 2020/21 accounts.

Our audit identified no significant adjustments that impact on the A&DS's annual report and accounts. A number of less significant adjustments were identified which have been corrected in the financial statements.

Following the correction of these adjustments our audit opinions on the annual report and accounts of A&DS are unqualified and unmodified and confirm that the 2020/21 Financial Statements present a true and fair view of the financial activities of A&DS.

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

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2021 were approved by the board on 16 December 2021. As reported in the independent auditor's report :

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial

statements and properly prepared in accordance with the accounts direction.

The annual accounts were signed in line with the statutory deadline

20. The unaudited annual report and accounts were received in line with our agreed audit timetable on 22 October 2021. Remote working continues to bring additional challenges to the audit process. This affected how we were able to work as an audit team and with A&DS staff. Our planned audit work has adapted to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. Working arrangements with officers continue to be reviewed to deliver an efficient and effective audit that meets our quality standards. Despite these challenges we were able to deliver the audit in line with the revised statutory deadline.

Overall materiality is £21,000

21. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for assessing materiality values.

22. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. As detailed within our Annual Audit Plan, our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and updated, as summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Planning	Revised
Overall materiality	£21,000	£18,000
Performance materiality	£13,000	£11,000
Reporting threshold	£1,000	£1,000

Source: Audit Scotland: A&DS Annual Audit Plan 2020/21

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

24. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

All identified misstatements have been corrected in the audited accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

26. Where we have identified misstatements in the accounts we have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

27. Total misstatements of £9,482 were identified. Management have agreed to correct all misstatements and there are no uncorrected errors arising from our audit.

28. A number of amendments were made to the unaudited performance report to align disclosures with legislative requirements. Further improvements are required in relation to identifying and disclosing performance objectives with measurable outcomes against which performance can be reported. This should include unbiased indicators, incorporating qualitative, quantitative, and prior year information and highlighting trends in indicators.

29. The 2020/21 performance report reflects A&DS have had difficulty in aligning performance measures and outcomes with strategy and will seek to remedy this in line with the new 10-year strategy going forward.

Recommendation 1

A&DS should ensure measurable outcomes are identified, against which performance can be reported, that align with the new 10-year strategy.

Good progress was made on prior year recommendations

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

2. Financial sustainability and governance statement

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

A&DS reported an effective surplus of £87,135 in 2020/21 against the targeted breakeven position. As a result, the general reserves balance increased from £252,300 at the start of the financial year to £339,435 as at 31 March 2021.

The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services.

A&DS should develop a revised financial strategy which ensures the total balances available are used to support financial sustainability over the medium-term. The financial strategy will require to incorporate a revised approach to service delivery and new ways of working.

A&DS operated within its revised budget in 2020/21

31. The main financial objective for A&DS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. A&DS reported an effective surplus of £87,135 in the 2020/21 audited accounts. This had an impact on the reserves balance, resulting in a closing balance of £339,435 as at 31 March 2021.

32. This was supplemented by other income of £55,000.

There was limited financial impact due to Covid-19

33. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

34. A&DS staff have been largely able work from home and deliver services remotely with increased costs of Covid-19 being largely offset through savings generated by staff working from home.

35. In addition, some projects have been postponed or delivered differently e.g. the Venice Biennale did not go ahead in Venice during 2020/21, but instead the What if...?/ Scotland Exhibition Launch took place in Dundee. In the longer term the economic uncertainty created by the pandemic makes financial planning more challenging, and further emphasises the need for effective financial management.

36. A&DS is funded directly by grant-in-aid received from the Scottish Government and also through project funding from other public sector bodies. The A&DS Board approved the 2020/21 draft budget in February 2020 with a resource allocation of £1.929 million a decrease of £0.06 million on 2019/20.

Financial planning for 2021/22

37. A&DS Board considered the 2021/22 budget at its meeting on 3 March 2021. The budget was set to meet an expenditure requirement of £2.003 million from the following income sources:

- Scottish Government Grant in Aid - £1.929 million
- Other Income - £0.075 million

38. The revised forecast of year-end income and expenditure shows that A&DS are anticipating a surplus of £87,135 compared to the original forecast of a breakeven position.

39. Covid-19 is likely to have a significant impact on A&DS's future financial plans in both the short and medium term. The 2021/22-2025/26 high level budgets are projecting a surplus in the first two years, with a deficit each year thereafter. The budget deficit per the forecast is anticipated to reach £0.075 million by 2025/26.

40. Due to the additional challenges presented by the Covid-19 pandemic and the medium to longer-term impact this may have on planned public sector spending across the UK and Scotland, A&DS's existing financial outlook plan is subject to significantly greater uncertainty.

41. It is likely that further decisions and announcements by the UK and Scottish Governments will impact and influence the A&DS's financial outlook, both in the short, medium and longer-term.

Recommendation 2

Develop a revised financial strategy which ensures the total balances available are used to support the financial sustainability of A&DS over the medium-term. The financial strategy will require to incorporate a revised approach to service delivery and new ways of working.

Governance Statement and Performance Report is consistent with the financial statements

42. Our review of the governance statement and performance report within the 2020/21 annual report and accounts concluded that both are consistent with the financial statements and properly prepared in accordance with the accounts direction.

National performance audit reports

43. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in Appendix 3.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Performance Report</p> <p>Improvements are required in relation to identifying and disclosing performance objectives with measurable outcomes against which performance can be reported. This should include unbiased indicators, incorporating qualitative, quantitative, and prior year information and highlighting trends in indicators.</p> <p>Risk: A&DS do not fully comply with sectoral and legislative requirements.</p>	<p>A&DS should ensure measurable outcomes are identified, against which performance can be reported, that align with the new 10-year strategy.</p> <p>Paragraph 28-29</p>	<p>Measurable outcomes have been included in our 10-year Corporate Strategy and 3-year Corporate Plan which were published in April 2021.</p> <p>New arrangements for reporting performance to the Audit Committee and Board have been introduced.</p> <p>This data will be included in the Performance Report in future years.</p> <p>Responsible officer – Lynne Lineen</p> <p>Agreed date – 31 March 2022</p>
<p>2. Financial sustainability</p> <p>The impact of the pandemic continues to present financial challenges, with a projected recurring deficit from 2022/23 onwards.</p> <p>Risk: A&DS may not be able to deal with future financial challenges and deliver required savings without adversely impacting service delivery.</p>	<p>A&DS should develop a revised financial strategy which ensures the total balances available are used to support financial sustainability over the medium-term. The financial strategy will require to incorporate a revised approach to service delivery and new ways of working.</p> <p>Paragraph 39-41</p>	<p>We recognise the need for a revised financial strategy and will ensure this includes a revised approach to service delivery and our new ways of working.</p> <p>We also continue to monitor expenditure across all areas of our business to maintain financial sustainability as best we can.</p> <p>Responsible officer – Lynne Lineen</p> <p>Agreed date – 31 March 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>Our audit work identified £7,975 of prepayment balances incorrectly classified as current instead of non-current.</p>	<p>A&DS should put in place processes to ensure that current and non-current assets are correctly identified and classified.</p>	<p>Following discussions with Audit Scotland we will ensure we have procedures in place to correctly identify and classify current and non-current assets.</p> <p>Responsible officer – Lynne Lineen</p> <p>Agreed date – 31 March 2021</p>
<p>Based on the projections within its five-year financial forecast, A&DS will incur a deficit each year in the period 2020/21 to 2024/25, and will utilise its reserves by the end of 2022/23.</p>	<p>To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.</p>	<p>We recognise the challenge of ensuring future financial sustainability for A&DS. We have a very good relationship with our Sponsor and ensure they are regularly updated on all aspects of our business including our financial sustainability.</p> <p>We acknowledge constraints when producing five-year forecasts as we have our grant funding confirmed for only one year ahead. In addition, in relation to salary forecasting we align to Scottish Government and they currently are only agreeing one year pay deals.</p> <p>These factors which are largely out of our direct control severely constrain us in forecasting. However we will continue to produce five-year financial forecasts making reasonable assumptions based on the knowledge we have and ensure our relationship with our Sponsor is strong.</p> <p>Responsible officer – Lynne Lineen</p> <p>Agreed date – 31 March 2021</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements **

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standard 240 requires that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions showed controls were operating effectively.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Conclusion: there is no evidence of management override of controls.</p>
<p>Recognition of Income and Expenditure</p> <p>Our 2019/20 audit testing identified issues in relation to the recognition of income and expenditure. The errors resulted in expenditure being overstated by £21,314 and income being overstated by £5,000.</p> <p>Management corrected these errors in the 2019/20 audited</p>	<p>A&DS recognise the need to carefully analyse all income and expenditure to ensure it is treated in the correct accounting period.</p> <p>A&DS have put in place systems to ensure all income and expenditure is scrutinised to ensure it is accounted for in the correct accounting period.</p>	<p>No issues were identified in relation to the recognition of income and expenditure during the 2020/21 audit.</p> <p>Conclusion: there is no evidence of incorrect income or expenditure recognition within the financial statements.</p>

Audit risk	Assurance procedure	Results and conclusions
financial statements, however their occurrence increases the risk of similar misstatements in 2020/21.		

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

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

www.audit-scotland.gov.uk/accessibility



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