

Architecture and Design Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Architecture and Design Scotland and the Auditor General for Scotland
December 2024

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Key messages

2023/24 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified. Architecture and Design Scotland's (A&DS) financial statements give a true and fair view of its financial position and its net expenditure for the year.
- 2** Key risks arising from the audit of A&DS's accounts were detailed in our Annual Audit Plan. There are no matters relating to our significant risk of material misstatement to draw to the attention of members.
- 3** There are no unadjusted misstatements in the financial statements.

Wider scope

- 4** A&DS overspent by £133k against its budget for 2023/24 which was supported by use of reserves.
- 5** A&DS continues to face significant financial challenges in the short to medium term. A rolling financial forecast is used to identify risks to sustainability.
- 6** There are improvements in the performance reporting in the annual report and accounts, including increased information on trend data and outcomes. This can be enhanced by incorporating measurable key performance indicators.
- 7** Appropriate arrangements are in place for securing Best Value.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Architecture and Design Scotland (A&DS). The scope of the audit was set out in an Annual Audit Plan which was shared with management in March 2024 and then presented to the 26 June 2024 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of A&DS's annual report and accounts
- conclusions on financial sustainability as required by the [Code of Audit Practice 2021](#).

2. This report is addressed to 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.

Audit appointment

3. I, Stephanie Harold, have been appointed by the Auditor General as auditor of A&DS for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment.

4. My team and I would like to thank board and audit committee members, executive directors and other staff, particularly those in the Corporate Infrastructure Team, for their cooperation and assistance this year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. A&DS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. A&DS is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity.

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2021](#) and supplementary guidance, and International Standards on Auditing in the UK (ISAs).

7. The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £11,920 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to A&DS by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified. Architecture and Design Scotland's (A&DS) financial statements give a true and fair view of its financial position and its net expenditure for the year.

Key risks arising from the audit of A&DS's accounts were detailed in our Annual Audit Plan. There are no matters relating to our significant risk of material misstatement to draw to the attention of members.

There are no unadjusted misstatements in the financial statements.

Audit opinions on the annual report and are unmodified

11. The Board approved the annual report and accounts for (A&DS) for the year ended 31 March 2024 on 11 December 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

Overall materiality was assessed on receipt of the annual report and accounts as £46.3k

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. My initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Quantitative materiality values

Materiality level	Amount
Overall materiality	£46.3k
Performance materiality	£32.4k
Reporting threshold	£2.3k

14. The overall materiality threshold was set with reference to gross expenditure, which I judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting the low history of material errors in prior years.

16. It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under ISA (UK) 260, I communicate significant findings from the audit to the Audit Committee, including my view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

19. I have no significant issues to report from the audit.

Audit work responded to the risks of material misstatement identified in the annual report and accounts

20. My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal adjustments. Detailed testing of journals with a focus on significant risk areas, including year-end and post-closing entries (including for income and expenditure), where we consider the risk of management override of controls to be the greatest. Evaluate significant transactions outside the normal course of business. 	<p>No issues identified in our consideration of the design of controls around journal entry processing.</p> <p>No findings from our enquiries of individuals involved in the financial reporting process around inappropriate or unusual activity relating to the processing of journal entries.</p> <p>No unusual or inappropriate transactions were identified as part of our detailed testing of journal entries.</p> <p>No significant transactions outside the normal course of business were identified.</p> <p>Conclusion: There is no evidence of management override of controls.</p>

21. In addition, I identified an “area of audit focus” in my 2023/24 Annual Audit Plan where I considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus was:

- **Accounting for requirements of IFRS 16:** Due to the nature of the issues identified as part of the 2022/23 audit relating to IFRS 16 and the complexities around accounting for leases, there is a risk of material misstatement around the accuracy of the accounting treatment of the lease transactions in 2023/24.

22. We carried out specific work in this area and identified that there was a prepayment of rent of £4.4k included in the financial statements. This had already been accounted via the IFRS 16 adjustments made in the financial statements. This has been adjusted in the financial statements and has increased expenditure by £4.4k in the Statement of Comprehensive Net Expenditure, and decreased assets in the Statement of Financial Position by the same amount.

There was one non-material misstatement identified within the financial statements

23. There was one adjusted non-material misstatement as detailed in paragraph [22](#).

24. We identified one classification error whereby the dilapidations provision was included within trade and other payables (current liabilities); however it should have been separately recorded as a provision in current liabilities. This has been adjusted in the financial statements. This had no impact on the reported net assets position.

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

26. Our audit work also identified a number of changes which were required in the remuneration and staff report. A&DS agreed the amendments and the disclosure was updated.

The unaudited annual report and accounts were received in line with the agreed timetable

26. The unaudited annual report and accounts were received in line with the revised agreed audit timetable on 11 October 2024.

Good progress was made on prior year recommendations

27. A&DS has made good progress in implementing the agreed prior year audit recommendations, as detailed in [Appendix 1](#). Financial sustainability remains a challenge, and an updated recommendation has been included (see [Part 2](#)).

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

A&DS overspent by £133k against its budget for 2023/24 which was supported by use of reserves.

A&DS continues to face significant financial challenges in the short to medium term. A rolling financial forecast is used to identify risks to sustainability.

There are improvements in the performance reporting in the annual report and accounts, including increased information on trend data and outcomes. This can be enhanced by incorporating measurable key performance indicators.

Appropriate arrangements are in place for securing Best Value.

Audit work has addressed the wider scope risk identified in our Annual Audit Plan

28. [Exhibit 3](#) sets out the wider scope risk relating to Financial Sustainability I identified in my 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 3

Risk identified from my responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>1. Financial sustainability</p> <p>A&DS has identified a year-end deficit in its 2024/25 budget, with further deficits forecast from 2025/26 onwards, requiring significant</p>	<ul style="list-style-type: none"> Review of A&DS's annual budget setting and monitoring arrangements. Review of A&DS's medium to longer term financial planning. 	<p>Budget setting was completed before the start of the financial year, and regular reporting of the financial position is provided to the Audit Committee and Board.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>savings to mitigate these. A&DS faces inflationary and pay related pressures over the short to medium term, with similar challenges across the public sector.</p> <p>A&DS continues to engage with its sponsor department on these challenges and is exploring ways to address them, including its review of office accommodation needs and provision of online events when appropriate.</p> <p>With these financial pressures, A&DS faces significant challenges in maintaining the delivery of services in a financially sustainable way.</p>	<ul style="list-style-type: none"> On-going review of A&DS's financial position and delivery of savings. 	<p>A&DS does not have a medium/longer term strategy but prepares rolling four-year financial forecasts. This is used to identify budget gaps and other risks to financial sustainability across the short to medium term.</p> <p>A&DS continue to face financial challenges including inflationary and pay related pressures. Given that over 75% of net expenditure in year relates to staff costs, there are fewer variable costs for supporting delivery of savings.</p> <p>Conclusion: Financial sustainability in the short to medium term continues to be challenging for A&DS.</p>

A&DS overspent by £133k against its budget for 2023/24 which was supported by reserves

29. The main financial objective for A&DS is to ensure that the financial outturn for the year is within the grant-in-aid funding allocated by the Scottish Government.

30. A&DS received grant-in-aid of £2,090k from the Scottish Government in 2023/24. A&DS has reported an outturn of £2,223k against its overall budget for 2023/24. The overspend of £133k has reduced reserves to £193k as at 31 March 2024. This places increasing pressure on future years as the reserves position has significantly reduced in 2023/24.

A&DS continues to face significant financial challenges and uncertainties in the short to medium term

31. A&DS set a budget for 2024/25 which was approved by the Board in February 2024. At this time, it identified that there was a projected deficit of £20k, with expenditure greater than the grant-in-aid funding of £1,795k from the Scottish Government. The grant-in-aid funding for 2024/25 represents a 14% reduction from the previous year, as specific funding for climate action towns has ended at the conclusion of this project. At the time of setting the budget, the savings needed to address the deficit were unidentified. These challenges mean that that financial sustainability is the highest rated risk on the risk register.

32. Quarterly budget reporting is shared with the Audit Committee which provides detailed information about projected and committed expenditure and the year-end forecasted position. As at the end of quarter 2 in 2024/25, savings had been identified in staff costs which has resulted in forecasting that a break-even position will be achieved at year end.

33. A&DS budget for 2024/25 is fully committed, with no capacity to deliver any additional projects not previously budgeted for. Discussions continue on a regular basis with the sponsor department to ensure awareness of the challenges faced by A&DS with these tightening budgets.

A&DS has rolling financial forecasts to identify budget gaps and financial challenges going forward

34. A&DS does not have a specific financial strategy but does prepare rolling four-year financial forecasts to assist with financial planning and achievement of the business plans. The forecasts give high level estimates of income and expenditure across the four-year period. These are useful in identifying and addressing risks to financial sustainability across the short to medium term.

35. 75% of net expenditure is paid out in salaries and there are other fixed costs facing A&DS including accommodation and IT costs, with the remainder of expenditure incurred delivering core services. This means that A&DS has been unable to make substantial savings in 2023/24. A&DS do not build planned savings into the rolling financial forecasts, other than when savings have been recognised following the completion of projects.

36. Recognising the challenges of future budget gaps, A&DS has introduced a voluntary severance scheme in 2024/25 as staff costs are the vast majority of operating costs. A&DS acknowledges that this can come with risks, including demotivation of staff, and also staff choosing to seek opportunities elsewhere. A reduction in staff numbers will also impact on future project delivery, although recent reporting has shown that planned work projects for in 2024/25 remain on track.

37. A&DS is forecasting budget gaps in each year going forward, with gaps totalling £440k over the financial years 2025/26 to 2027/28. These do not yet include the impact of the ongoing voluntary severance scheme. In addition, there are future financial uncertainties including pay related pressures, including increased employer national insurance costs, over the short to medium term which may further impact the current forecasts.

38. A&DS need to continue to engage with its sponsor department to ensure that financial challenges and pressures are shared. Factors such as exploring the recovery of costs for the services provided by A&DS may require to be considered in the future to create income streams to help manage financial sustainability.

Recommendation 1

We continue to recommend that A&DS regularly monitors its budgets and four-year rolling financial forecasts to ensure informed financial planning decisions are made and risks identified. These should be revised on an ongoing basis when new information is obtained.

Information relating to key metrics and outcomes have been included in the performance report

39. We consider the qualitative aspects of the performance report included in the annual report and accounts. The performance report is to provide information on the main objectives and strategies of the organisation, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance, and is essential in helping stakeholders understand the financial statements.

40. We have identified that there is increased information about outcomes included in the annual report and accounts. This details the evidence accumulated in year to support the achievements against the corporate plan 2021-2024, covering the first phase of the overarching ten-year 2021-2031 corporate strategy. Four key outcomes have positive evidence, and four key outcomes have not yet been fully evidenced and will continue to be worked on over the period 2024-2027, aligned to the second three-year corporate plan.

41. Increased metrics relating to social media, the A&DS website and newsletters are detailed in the performance report. This shows the trends from the previous year. This can continue to be built upon to help identify the story that the metrics are telling A&DS. Where possible, reporting can be enhanced by including measurable key performance indicators to help evidence the impact of A&DS's work.

42. We discussed some amendments to the draft performance report to better ensure this complied with the requirements of the FReM which management agreed to implement. We concluded that the information disclosed in the 2023/24 performance report complies with the FReM.

Disclosures in the governance statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

43. HM Treasury's Financial Reporting Manual (the FReM) states that A&DS must prepare a governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Financial Manual (SPFM) for the content of the governance statement.

44. The governance statement reflects a range of assurances received by the accountable officer in relation to the adequacy and effectiveness of A&DS's system of internal control which operated during the financial year. Each quarter,

the Audit Committee is provided with a CEO Governance Statement and Leadership Team Statement of Internal Controls. This provides information across a number of areas including any governance changes, any new/revised policies and key business metrics. These quarterly reports feed into the governance statement.

45. We have attended Audit Committee meetings via Microsoft Teams or in person throughout the year. From our attendance, we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge. Papers are comprehensive and circulated in a timely manner to support effective decision-making and scrutiny of performance.

A&DS has appropriate arrangements in place for securing Best Value

46. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have specific responsibility to ensure that arrangements have been made to secure Best Value. From our discussions with A&DS management, we are satisfied that there are appropriate arrangements in place for securing Best Value. This includes regular financial monitoring and performance reporting.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial sustainability</p> <p>A&DS face financial challenges in the short to medium term as budget gaps are identified in each year of the financial forecast. The deficits for the period 2025-26 to 2027/28 total £440k.</p> <p>Risk: A&DS may not be able to deliver the necessary savings to eliminate budget gaps without impacting service delivery.</p>	<p>We continue to recommend that A&DS regularly monitors its budgets and four-year rolling financial forecasts to ensure informed financial planning decisions are made and risks identified. These should be revised on an ongoing basis when new information is obtained.</p> <p>Paragraph 34.</p>	<p>Accepted</p> <p>The CEO is in continuous discussion with our sponsor department at Scottish Government about our financial challenges.</p> <p>We are actively trying to reduce forecast deficits by implementing a Voluntary Severance Scheme to reduce staff costs from 2025/26.</p> <p>We will continue to monitor and update budgets and the four-year financial forecasts on a regular basis when new information is obtained.</p> <p>Responsible officer: Jim MacDonald, CEO</p> <p>Agreed date: 31 March 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>B/f 2022/23 AAR</p> <p>1. Financial sustainability</p> <p>The current economic climate continues to present financial challenges for A&DS, with a projected recurring deficit from 2024/25 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>We recommend that A&DS continues to regularly monitor its budgets and the five-year financial forecasts to ensure informed financial planning decisions are made. These should be revised on a regular basis when new information is obtained.</p> <p>Agreed Action</p> <p>The CEO is in continuous discussion with our sponsor department at Scottish Government about our financial challenges. We will continue to monitor and update budgets and the five-year financial forecasts on a regular basis.</p> <p>Responsible officer:</p> <p>Jim MacDonald, CEO</p> <p>Agreed date:</p> <p>31/03/2024</p>	<p>Implemented</p> <p>The agreed action has been implemented, but financial sustainability remains a risk.</p> <p>A refreshed recommendation for 2024/25 has been included given the challenges in place.</p>
<p>B/f 2022/23 AAR</p> <p>2. Performance report trend indicators</p> <p>Improvements are required in relation to disclosing performance indicators including qualitative, quantitative, and prior year information and highlighting trends in indicators.</p> <p>Risk: A&DS is not able to fully demonstrate how it has achieved its performance objectives in the annual report and accounts.</p>	<p>We recommend that A&DS further develops the performance report to include details against key outcome measures and incorporate quantitative and qualitative data and trend information as they become available. The introduction of new software, Project for the Web, should assist with this going forward.</p> <p>Agreed Action</p> <p>We have developed our performance reporting during 2022/23 and will further develop the performance report in the 2023/24 Annual</p>	<p>Implemented</p> <p>Additional trend information and detail on outcomes have been included in the 2023/24 performance report.</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>Report and Accounts to update performance against outcome measures, as well as incorporating quantitative and qualitative data with trend analysis.</p> <p>Responsible officer: Jim MacDonald, CEO</p> <p>Agreed date: 31/03/2024</p>	

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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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