

ARCHITECTURE & DESIGN SCOTLAND LIMITED

**Annual Report for the Year Ended 31 March 2010
To the Board of Directors and the Auditor General for Scotland**

RSM Tenon

160 Dundee Street
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Architecture & Design Scotland Limited
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This report is part of a continuing dialogue between the company and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the company, and of Audit Scotland. We do not accept responsibility to any officer or member of the company acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the company accounts as a whole. An audit does not examine every operating activity and accounting procedure in the company, nor does it provide a substitute for management's responsibility to maintain adequate controls over the company's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the company's systems and working practices, or of all improvements that could be made.

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1 EXECUTIVE SUMMARY

1.1 Financial Review

- The surplus for the year was £2,790 (2009: deficit of £10,668).

• The company aims to be in a break-even position at each year end on a cash income/spend basis. The financial statements are prepared on an accruals basis in accordance with accounting standards. Since the company commenced trading it has generated an accumulated surplus of £9,540 as at 31 March 2010.

• The company purchased part of the business and assets of The Lighthouse Trust, a registered charity, on 13 November 2009. As a visitor attraction, education centre and exhibition space, The Lighthouse Trust, provided a focus for Scotland's thriving architecture and design communities setting them within an international context. The cash consideration for the purchase of that part of the business and assets of The Lighthouse Trust amounted to £5,051, the value assigned to the equipment used in connection with the Trust's business. No other consideration was paid by the company.

• The Scottish Government has agreed a budget for Architecture & Design Scotland Limited of £2.8m for 2010-2011 which includes a carry forward of unspent funds from 2009-2010 of £500k. The business plan for 2010-2011 has been finalised and work is due to commence shortly on the corporate plan for the period April 2011-2014.

1.2 Financial Statements

• We have issued an unqualified audit opinion on the financial statements of Architecture & Design Scotland Limited for the year ended 31 March 2010. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by the Scottish Ministers.

1.3 Corporate Governance

• Corporate governance is concerned with the structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for Architecture & Design Scotland Limited operated satisfactorily during the year, as reflected in the Statement on Internal Control.

1.4 Other

- On 1 April 2010 a new Board of Directors was appointed to Architecture & Design Scotland Limited.

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2 INTRODUCTION

- The purpose of this report is to give a summary of our audit activity for the year ended 31 March 2010. It includes details of the more significant matters arising from the audit, sets out the respective responsibilities of management and external audit, and reports what action has been taken or is necessary by management.
- Our audit of Architecture & Design Scotland Limited for the year ended 31 March 2010 has been carried out in accordance with statutory requirements and follows the practices prescribed by the Code of Audit Practice and guidance issued by the Auditing Practices Board (APB). The Code of Audit Practice sets out fully the responsibilities of the company and its officers in relation to financial probity, control, preparation of accounts and the achievement of value for money in the provision of services. We are required under the Code to give an independent assessment of how the company has discharged its stewardship of public funds. A summary of our responsibilities is contained in Appendix 2.
- The 2010 financial statements have been prepared under International Financial Reporting Standards (IFRS) and IFRS 1 first-time adoption has been applied. The comparative figures have been restated from UK Generally Accepted Accounting Policy (UK GAAP) where required. Any adjustments made as a result of conversion were presentational in nature and had no effect on brought forward reserves.
- During the year, the company continued to outsource its financial record keeping function to the Royal Commission on the Ancient and Historical Monuments of Scotland. A decision has been taken to transfer this function in-house from September 2010.
- We have summarised the key issues arising from our audit in section 4. We invite Architecture & Design Scotland Limited to receive this report and consider the recommendations we have made. We would be grateful to receive the Company's response to the issues we have raised.

3 FINANCIAL REVIEW

3.1 Introduction

- The purpose of the financial review is to consider the general financial standing of the company by looking back at financial performance in 2009-2010 and to look ahead to the future financial position. Our review is aimed at helping management understand the financial position of Architecture & Design Scotland Limited at a particular point in time. It should not be regarded as definitive or comprehensive and the company should not seek to rely on this summary in isolation.

3.2 Financial Performance 2009-10

- The surplus for the year was £2,790 (2009: deficit of £10,668).
- The company aims to be in a break-even position at each year end on a cash income/spend basis. The financial statements are prepared on an accruals basis in accordance with accounting standards. Since the company commenced trading it has generated an accumulated surplus of £9,540 as at 31 March 2010.
- The company purchased part of the business and assets of The Lighthouse Trust, a registered charity, on 13 November 2009. As a visitor attraction, education centre and exhibition space, The Lighthouse Trust, provided a focus for Scotland's thriving architecture and design communities setting them within an international context. The cash consideration for the purchase of that part of the business and assets of The Lighthouse Trust amounted to £5,051, the value assigned to the equipment used in connection with the Trust's business. No other consideration was paid by the company.
- As a result of the acquisition of part of The Lighthouse Trust, 11 additional government funded posts joined the company and the company's expenditure on staff costs increased from £571,633 in 2009 to £803,551 in 2010. The salary uplift of £30,866 which had been accrued for in the 2009 financial statements was also paid in the year. Staff costs represent the largest expense category within the organisation.
- A total sum of £162,354 was paid to Glasgow City Council on 31 March 2010 in respect of the right to occupy space within the Lighthouse building in Glasgow for the period to 31 March 2011. The financial statements include a prepayment of £106,104 in relation to the prepaid element of this payment. The company incurs an annual charge of £50,000 in relation to the rental of Bakehouse Close and the lease for this property expires in April 2016.
- A carry forward of unspent funds from 2010 to 2011 of £500k has been agreed with the Scottish Government (£115k of these funds have been drawn down into the company's bank account at the year end).

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3.3 Financial Plan 2010-2011 and Grant Allocation

- The Scottish Government has agreed a budget for Architecture & Design Scotland Limited of £2.8m for 2010-2011 which includes a carry forward of unspent funds from 2009-2010 of £500k. The business plan for 2010-2011 has been finalised and work is due to commence shortly on the corporate plan for the period April 2011–2014.

3.4 Capital Expenditure Plans

- Architecture & Design Scotland Limited business plan for 2010-11 predicts minimum capital expenditure in the year to 31 March 2011.

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4 FINANCIAL STATEMENTS

- The respective responsibilities of the company and RSM Tenon Audit are summarised in Appendix 2. The purpose of this section of our report is to highlight and explain our formal opinion on the financial statements, and to comment on the main issues arising from our audit of the financial statements.

4.1 Audit Opinion

- We have issued an unqualified audit opinion on the financial statements of Architecture & Design Scotland Limited for the year ended 31 March 2010. A copy of our audit opinion is attached to this report at Appendix 1.

4.2 Independence

- In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement director and audit staff have been identified and assessed at the planning stage of our audit.
- No independence issues have been identified that Board Members need to be aware of.

4.3 Audit Approach and Materiality

- Our audit planning was carried out taking account of the issues highlighted through a planning meeting with company management, and our knowledge and understanding of the business.
- In our audit planning, we have taken account of the regulation within the sector and the results of our own risk assessment made in accordance with the guidance set by International Standards on Auditing (UK and Ireland).
- The level of materiality for making adjustments to the financial statements was calculated based on total income and was assessed at £28,500.
- We are required to notify you of any potential adjustments identified during the course of our audit work unless they are clearly trifling. For the purposes of this report we have taken clearly trifling as being less than £285.
- The key business risk identified for Architecture & Design Scotland Limited is the possibility that continued funding and support from the Scottish Government may not be forthcoming due to budget cuts which are being enforced on the public sector. This significant matter was discussed with company management during the course of the audit.

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4.4 Accounting Policies and Practices

- The 2010 financial statements have been prepared under International Financial Reporting Standards (IFRS) and IFRS 1 first-time adoption has been applied. The comparative figures have been restated from UK Generally Accepted Accounting Policy (UK GAAP) where required. Any adjustments made as a result of conversion were presentational in nature and had no effect on brought forward reserves.

4.5 Potential Audit Adjustments

- No potential audit adjustments have been booked which impact on the surplus reported by Architecture & Design Scotland Limited for the year to 31 March 2010.

4.6 Regularity Audit

- We have issued an unqualified regularity opinion and there are no significant issues that we wish to draw to the Board's attention.

5 CORPORATE GOVERNANCE AND ACCOUNTABILITY

- Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. High standards of governance and accountability, with effective structures and processes to govern decision making and balanced reporting of performance to the public, are fundamental features of best value. The respective responsibilities of Architecture & Design Scotland Limited and RSM Tenon Audit are summarised in Appendix 2. This section of our report comments on the main aspects of our work, and highlights particular issues which arose.

5.1 Risk Management

- Although the term "Risk Management" has become relatively common recently, the underlying principles – of identifying and assessing risks and taking action to minimise their occurrence and impact, are well established. The company's committee structure and internal audit function are both examples of policies and procedures which address potential risks. The company has in place a risk management policy, and company management regularly update and review a detailed risk register.

5.2 Systems of Internal Control

- The respective responsibilities of the company and ourselves as auditors are set out at Appendix 2.
- Through the results of our own testing, and our reliance on areas examined by internal audit, we have concluded that the fundamental key financial systems of the company are operating satisfactorily.

5.3 Statement on Internal Control

- The statement on internal control provided by Architecture & Design Scotland Limited's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out Architecture & Design Scotland Limited's approach to this. The system of internal control continues to be developed as the business matures and systems become established. The organisation continues to outsource its financial record keeping function to the Royal Commission on the Ancient and Historical Monuments of Scotland but took steps during the year to introduce its own financial and accounting arrangements for implementation in 2010-11.

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5.4 Internal Audit

- The company's internal audit function is outsourced to the Scottish Legal Aid Board (SLAB).
- The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/2010 audit we assessed whether we could place reliance on Architecture & Design Scotland Limited's internal audit function. We concluded that we could place reliance on the work of SLAB during the audit to highlight any areas of significant concern in relation to the company's control environment and the effective operation of internal controls.
- 3 internal audit reports were issued by SLAB in 2009-2010 in relation to IS installation, payroll and purchasing.
- From the series of reviews carried out, SLAB have confirmed that Architecture & Design Scotland Limited have a reasonably sound framework of control given the size of the organisation which provides reasonable assurance regarding the effective and efficient achievement of the organisations objectives. A number of recommendations in each report have been made and we understand that company management are progressing with these.

5.5 Other Governance Responsibilities

Prevention and Detection of Fraud and Irregularities

- The respective responsibilities of the company and ourselves as auditors are set out in Appendix 2. During the year, we have reviewed the overall arrangements through our review of systems.
- Architecture & Design Scotland Limited has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.
- There were no reported frauds in 2009-2010.

Legality/Propriety

- Again, the respective responsibilities of the company and ourselves as auditors are set out in Appendix 2.
- Our review of the company's transactions and arrangements has revealed no areas of concern.

6 ACTION PLAN

6.1 Observations on the Company's Regularity Framework and Overall Control Environment

	Subject	Grade
1	Monthly reconciliations should be performed of the Scottish Government OPG/Citi account to ensure that balances with the Scottish Government are in agreement with company records.	2

Please note that matters and recommendations arising from the internal audit reports have not been included above.

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

Grade 1: We believe these observations are particularly significant and that management should take prompt action.

Grade 2: These observations are significant but of a less urgent nature than Grade 1 observations. We believe that action needs to be taken within an agreed timescale.

Grade 3: Observations that merit attention but are less significant than Grade 1 and 2 observations.

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Annexes for Management Information

APPENDIX 1

ARCHITECTURE & DESIGN SCOTLAND LIMITED COMPANY LIMITED BY GUARANTEE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCHITECTURE & DESIGN SCOTLAND LIMITED, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

YEAR ENDED 31 MARCH 2010

We have audited the financial statements of Architecture & Design Scotland Limited for the year ended 31 March 2010 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008. These comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the board, Chief Executive/Accountable Officer and auditor

The board and Chief Executive/Accountable Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Companies Act 2006 and directions made by the Scottish Ministers. The Chief Executive/Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006 and directions made by the Scottish Ministers. We report to you whether, in our opinion, the information in the Directors' Report, included in the Annual Report, is consistent with the financial statements. We also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, we report to you if, in our opinion, the body has not kept proper accounting records, if the body's statement of accounts is not in agreement with these accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the body's compliance with the Scottish Government's guidance, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

APPENDIX 1

ARCHITECTURE & DESIGN SCOTLAND LIMITED COMPANY LIMITED BY GUARANTEE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCHITECTURE & DESIGN SCOTLAND LIMITED, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT (*CONTINUED*)

YEAR ENDED 31 MARCH 2010

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the board/and Chief Executive/Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Financial statements

In our opinion

- the financial statements give a true and fair view of the state of affairs of the body as at 31 March 2010 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the financial statements and the part of the Remuneration Report to be audited have been prepared in accordance with the requirements of the Companies Act 2006 and directions made by the Scottish Ministers; and
- information which comprises the Directors' Report, included with the Annual Report, is consistent with the financial statements.

Regularity

In our opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Fiona J Martin, Senior Statutory Auditor
For and on behalf of

RSM Tenon Audit Limited
Statutory Auditor
160 Dundee Street
Edinburgh
EH11 1DQ

Date:-

Our respective responsibilities

Financial Statements

It is the responsibility of the company to:-

- *Ensure the regularity of transactions by putting in place systems of internal control.*
- *Maintain proper accounting records.*
- *Prepare financial statements which present a true and fair view of the financial position of the company and its expenditure and income in accordance with the FReM.*

We are required to give an opinion on:-

- *Whether the accounts present a true and fair view of the financial position of the Company and its expenditure and income for the period.*
- *Whether the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.*

In carrying out this responsibility we provide reasonable assurance that, subject to the concept of materiality, the financial statements:-

- *Are free from material misstatements.*
- *Comply with the statutory and other requirements applicable.*
- *Comply with relevant requirements for accounting presentation and disclosure.*

Corporate Governance

Corporate Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles apply:-

- *Openness*
- *Integrity*
- *Accountability*

We have a responsibility to review and, where appropriate, report findings on the Company's corporate governance arrangements as they relate to:-

- *The Company's review of its systems of internal control including its reporting arrangements.*
- *The prevention and detection of fraud and irregularity.*
- *Standards of conduct and arrangements in relation to the prevention and detection of corruption.*
- *The financial position of the Company.*

APPENDIX 2

Our work has focused upon our review of the Company's Risk Management arrangements, systems of internal control, Internal Audit, consideration of the controls to prevent and detect fraud and corruption, and the audit of the final accounts.

In giving an opinion on the accounts our audit strategy requires us to ensure that the fundamental financial systems are adequately covered each year. Whenever possible, to avoid duplication of effort, we seek to rely on the work of Internal Audit.

However, our work cannot cover every financial activity and accounting procedure. We plan and perform our audit to give reasonable assurance that the financial statements are free from material misstatement and that they comply with statutory and other requirements.

Risk Management

The Company's Responsibility

It is the responsibility of the Company to identify and address its operational and financial risks and to develop and implement proper arrangements to manage them, including adequate and effective systems of Internal Control.

The Role of RSM Tenon Audit Limited

In planning our audit, we consider and assess your risk management arrangements as part of our assessment of audit risk. This helps us to tailor our audit plans so that they are both appropriate to your circumstances and directed to the areas of greatest risk.

Systems of Internal Control

The Company's Responsibility

The Company has a responsibility to develop and implement systems of internal control, including risk management, and systems of financial, operational and compliance controls.

Three components of a system of risk management are:-

- Timely identification of key business risks.*
- Consideration of the likelihood of the risks crystallising and the significance of the consequential financial or other impact.*
- Establishment of priorities for the allocation of resources to control risk and the setting and communicating of key objectives.*

The monitoring of controls provides assurance that managers are assessing the existence of risk and the effectiveness of controls over the risks. The internal audit arrangements form an important part of management's monitoring and review of internal control arrangements, and in ensuring that appropriate monitoring of risks and controls takes place.

The role of RSM Tenon Audit Limited

In broad terms the external auditor is expected to assess the internal controls in the Company's main financial systems and report on any significant control weaknesses identified. This does not absolve management from its responsibility for the maintenance of an adequate internal control system.

Prevention and Detection of Fraud and Irregularities

The Company's Responsibility

It is the responsibility of the Company to establish arrangements to prevent and detect fraud and other irregularity. It therefore needs to put in place proper arrangements for:-

- Developing, promoting and monitoring compliance with standing orders and financial instructions.*
- Developing and implementing strategies to prevent and detect fraud and other irregularity.*
- Receiving and investigating allegations of breaches of proper standards of financial conduct or of fraud and irregularity.*

The Role of RSM Tenon Audit Limited

External audit is required to review the adequacy of the measures taken by the Company, to test compliance, and to draw the attention of management to any weaknesses or omissions.

Legality

The responsibility for ensuring the legality of all activities and transactions rests with the Company.

The responsibility of the external auditor is to review the legality of the Company's transactions and to be aware of the requirements of statutory provisions.

Standards of Conduct, Integrity and Openness

Propriety is concerned with the way in which public business should be conducted. It is concerned with fairness and integrity. It must be recognised that the public view of propriety is as much about perception as reality.

The Company's Responsibility

It is the responsibility of the Company to ensure that its affairs are managed in accordance with proper standards of conduct. It needs therefore to put in place proper arrangements for:-

- Implementing and monitoring compliance with appropriate guidance on standards of conduct.*
- Expressing and promoting appropriate values and standards across the organisation.*
- Developing, promoting and monitoring compliance with Codes of Conduct that advise Members, Officers or Managers of their personal responsibilities and expected standards of behaviour.*
- Developing, promoting and monitoring compliance with standing orders and financial instructions.*

The Role of RSM Tenon Audit Limited

It is our role to consider whether the Company has put in place adequate arrangements to maintain and promote proper standards of financial conduct and to prevent and detect corruption. We discharge this duty by reviewing and where appropriate examining evidence that is relevant to these arrangements.

Financial Position

The Company's Responsibility

It is the responsibility of the Company to conduct its affairs and put in place proper arrangements to ensure that the financial position is soundly based having regard to:-

- Financial monitoring and reporting arrangements.*
- Compliance with statutory financial requirements and achievement of financial targets.*
- Levels of balances and reserves.*
- The impact of planned future policies and known or foreseeable future developments.*

The Role of RSM Tenon Audit Limited

It is our role to consider whether the Company has established adequate arrangements. We are also required to have regard to going concern as part of the audit of the financial statements. In carrying out this responsibility we consider:-

- Financial performance in the year.*
- Compliance with statutory financial requirements and financial targets.*
- Ability to meet known statutory and other financial obligations actual or contingent.*
- Responses to known developments which may have an impact on the Company's financial position.*