

**ARCHITECTURE & DESIGN SCOTLAND LIMITED**

**Annual Report for the Year Ended 31 March 2011  
To the Board of Directors and the Auditor General for Scotland**

**RSM! Tenon**

160 Dundee Street  
Edinburgh  
EH11 1DQ

26 October 2011

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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.

## **1 EXECUTIVE SUMMARY**

### **1.1 Financial Review**

- The surplus for the year was £12,184 (2010: £2,790).
- 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 £21,724 as at 31 March 2011.
- In the prior year, the company purchased part of the business and assets of The Lighthouse Trust, a registered charity. Taking on space within the Lighthouse building has meant there has been significant outlay for IT infrastructure to try and ensure that both the company's offices operate from the same network and systems. A refresh of the company's IT equipment was also carried out to ensure that all staff are working with equipment which is of an adequate or good standard. Capital expenditure in relation to computer equipment in the year amounted to £53k.
- The Scottish Government has agreed a budget for Architecture & Design Scotland Limited of £1.885m for 2011-2012, a reduction of 18% from 2010-2011. Unspent funds carried forward from 2010-2011 amount to £327k (2009-2010 - £500k).

### **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 2011. 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**

- SAGE is now being utilised in-house to record financial transactions and as a budgetary tool to monitor costs incurred and committed in comparison to income and available funds on a project by project basis. Royal Commission on the Ancient and Historical Monuments of Scotland are no longer involved with the finance function and are currently only providing HR support to Architecture & Design Scotland Limited.

- The new Board of Directors of Architecture & Design Scotland Limited have now been in place for more than 12 months. Jim MacDonald was appointed as Chief Executive in August 2010.

## **2 INTRODUCTION**

- The purpose of this report is to give a summary of our audit activity for the year ended 31 March 2011. 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 2011 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 2011 financial statements have been prepared under International Financial Reporting Standards (IFRS).
- Previously, the company's financial record keeping function was outsourced to the Royal Commission on the Ancient and Historical Monuments of Scotland. A decision was taken to transfer this function in-house from September 2010 and SAGE is now being utilised to record financial transactions.
- We have summarised the key issues arising from our audit in section 4. We invite Architecture & Design Scotland Limited to review 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 2010-2011 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 2010-11**

- The surplus for the year was £12,184 (2010: £2,790).
- 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 £21,724 as at 31 March 2011.
- The company purchased part of the business and assets of The Lighthouse Trust, a registered charity, in the prior year. As a result of the acquisition of part of The Lighthouse Trust, 11 additional government funded posts joined the company. The activities of The Lighthouse Trust have now been operational within Architecture & Design Scotland Limited for a full year and staff costs have increased as a result of this, from £803k in 2009-2010 to £1.131m in 2010-2011. Staff costs continue to represent the largest expense category within the organisation.
- Taking on space within the Lighthouse building has meant there has been significant outlay for IT infrastructure to try and ensure that both the company's offices operate from the same network and systems. A refresh of the company's IT equipment was also carried out to ensure that all staff are working with equipment which is of an adequate or good standard. Capital expenditure in relation to computer equipment in the year amounted to £53k.
- In the prior year, 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 2009-2010 financial statements included a prepayment of £106,104 in relation to the prepaid element of this payment. In the current year, the payment due to Glasgow City Council for the right to occupy space for the period to 31 March 2012 was made subsequent to 31 March 2011. The payment made subsequent to the year end is in line with the charge agreed for the 12 month period to 31 March 2011. The company continues to incur 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 2011 to 2012 of £327k has been agreed with the Scottish Government (£113k of these funds had been drawn down into the company's bank account at the year end).
- The Board of Directors received emoluments in the year totalling £43,070 (2010: £nil).
- The financial statements include full provision against a sales invoice raised in June 2010 to RMJM of £10,000.

### **3.3 Financial Plan 2011-2012 and Grant Allocation**

- The Scottish Government has agreed a budget for Architecture & Design Scotland Limited of £1.885m for 2011-2012, a reduction of 18% from 2010-2011. The business plan for 2011-2012 has been finalised based on this level of grant funding.

### **3.4 Capital Expenditure Plans**

- Architecture & Design Scotland Limited's business plan for 2011-12 predicts minimum capital expenditure in the year to 31 March 2012.

### **3.5 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.

### **3.6 Audit Opinion**

- We have issued an unqualified audit opinion on the financial statements of Architecture & Design Scotland Limited for the year ended 31 March 2011. A copy of our audit opinion is attached to this report at Appendix 1.

### **3.7 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.

### **3.8 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 £55,500.
- 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 £1,665.
- 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.

**3.9 Accounting Policies and Practices**

- The 2011 financial statements have been prepared under International Financial Reporting Standards (IFRS).

**3.10 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 2011.

**3.11 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.



#### **4 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.

##### **4.1 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.

##### **4.2 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.

##### **4.3 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. Steps were taken during the year by Architecture & Design Scotland Limited to implement in-house financial and accounting arrangements. SAGE is now being utilised to record financial transactions and as a budgetary tool to monitor costs incurred and committed in comparison to income and available funds on a project by project basis. Royal Commission on the Ancient and Historical Monuments of Scotland are no longer involved with the finance function and are currently only providing HR support to Architecture & Design Scotland Limited. The system of internal control has been further developed in the year due to the change in procedures as a result of the implementation of SAGE.

#### **4.4 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 2010/2011 audit we assessed whether we could place reliance on Architecture & Design Scotland Limited's internal audit function. We concluded that we could replace 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.
- 2 internal audit reports were issued by SLAB in 2010-2011 in relation to risk management and project control. The report in relation to project control is yet to be finalised.
- From the reviews carried out, SLAB have concluded that Architecture & Design Scotland Limited have made proactive changes to the organisation's risk management profile however further development of this is required. In relation to project control, SLAB have concluded that there are shortfalls surrounding the tender process for project purchases and that the organisation would benefit from putting a 'lessons learned' log in place to highlight and develop best practice for other projects. We understand that company management are progressing with recommendations arising from the internal audit reports.

#### **4.5 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 2010-2011.

##### *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.
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**5 ACTION PLAN**

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

	<b>Subject</b>	<b>Grade</b>
<b>1</b>	No significant issues arising.	

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.

**Architecture & Design Scotland Limited**

**Annual Report for the Year Ended 31 March 2011**

**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 2011

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We have audited the financial statements of Architecture & Design Scotland Limited for the year ended 31 March 2011 under The Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2008. The financial statements comprise the Income Statement, the Statement of Financial Position, 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 European Union, and as interpreted and adapted by the 2010/11 Government Financial Reporting Manual (the 2010/11 FReM).

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 Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities (set out on page 4), the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2011 and of its net operating surplus for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 FReM; and

## 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 2011

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- have been prepared in accordance with the requirements of the Companies Act 2006 and directions made by the Scottish Ministers.

#### **Opinion on regularity**

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

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and directions made by the Scottish Ministers; and
- the information given in the Directors' report, included in the Annual Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement on Internal Control does not comply with Scottish Government guidance.

We have nothing to report in respect of these matters.

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.*

*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.*