



cutting through complexity

Architecture and Design Scotland

Annual audit report

Audit: year ended 31 March 2013

8 November 2013

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Architecture and Design Scotland ("the Company") and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for the audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report also summarises our work in relation to Architecture and Design Scotland ("A+DS's") financial statements for the year ended 31 March 2013.

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during the course of our work.

Area	Summary observations	Analysis
Service overview		
Business issues and financial position	Architecture and Design Scotland ('A+DS') received income of £1.8m in the year from the Scottish Government. Income deferred from the 2011-12 period was also utilised in year which contributed to a surplus of £81,000. The business plan to 31 March 2014 has been approved following a bidding process, and all approved projects support the strategic aims of A+DS, as well as the broader aims of the Scottish Government. Grant-in-aid funding for 2013-14 has been agreed at £1.4m, with a further £299,000 of ring-fenced funding available for Schools and Health projects.	Page 4
Performance Management		
Performance management	Best Value and performance management have continued to be enhanced by improved budget-setting processes and the use of the procurement manual, as introduced within the 2011-12 year. The board approved a new scheme of delegated authority within the year which sets out the responsibilities of the chief executive and management.	Page 7
Governance and narrative reporting		
Governance	Over-arching and supporting corporate governance frameworks have been reinforced in the year, and there is evidence of quarterly review of the organisational risk register to ensure that it is dynamic and effective in capturing key risks in a timely manner.	Page 9
Control observations	Our work over the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. The recommendation made during our prior year audit - concerning segregation of duties within the preparation and posting of journals - was found to have been implemented effectively.	Page 10
Financial statements and accounting		
Accounting policies	There have been no changes to accounting policies in 2012-13. No newly effective accounting standards are expected to have a material impact on next year's financial statements.	Page 12
Audit conclusions	We have issued unqualified audit opinions on the 2012-13 financial statements.	Page 13
Year-end process	The financial statements, management commentary, and governance statement were received by the agreed date and were well supported by quality working papers.	Page 13

Service overview

Our perspective on key business issues and
the financial position of the Agency

Income and expenditure increased compared to 2011-12. This is primarily due to the effects of income deferred from 2011-12 which was utilised in 2012-13.

Financial performance

As a not-for-profit body, A+DS aims to achieve a break-even position at the end of each financial year; for the year ended 31 March 2013 the financial statements reflect a surplus of £81,257. This is a significant increase on the prior year and is due primarily to increased income recognised during the year.

	Actual 2011 -12 £'000	Actual 2012-13 £'000	Variance £'000
Grant-in-aid	1,963,711	1,845,081	(118,630)
Other income	17,539	366,288	348,749
Total income	1,981,250	2,211,369	230,119
Staff costs	1,148,951	1,130,387	18,564
Depreciation	39,238	34,210	5,028
Rentals under operating leases	156,000	137,500	18,500
Exhibition costs	232,860	416,120	(183,260)
Other expenditure	383,581	411,895	(28,314)
Total expenditure	1,960,630	2,130,112	(169,482)
Surplus/(deficit)	20,620	81,257	60,637

Source: A+DS Financial Statements for the year ended 31 March 2013

The majority of A+DS's income is in the form of grant-in-aid from the Scottish Government through the Planning and Architecture Division. Income is also received from the Scottish Government for Health and Schools Directorates programmes in arrears, and is ring-fenced for specific projects. Our audit work in 2011-12 highlighted historically high levels of deferred income where drawn-down funding was not spent against projects in the year and so was carried forward for use in future years. Analysis of the results for 2012-13 shows a planned reduction in deferred income at the year end due to utilisation of available resources during the year.

Income

Grant-in-aid income has reduced in 2012-13 compared to 2011-12. This is primarily a reflection of the continued challenging financial environment within which A+DS operates, but is also attributable to £48,500 of undrawn funding for the Health Directorate programme which was not required in year.

Other income recognised in the year to 31 March 2013 increased significantly on the prior year; this was due primarily to the utilisation of £212,000 of funding deferred from 2011-12.

Income recognised during the year is reconciled to the cash received in the year below:

Income reconciliation	£000
Cash received	1,957
Income deferred from 2011-12	212
Income deferred to 2013-14	(26)
Income accrued in 2013-14	24
Grant-in-aid related to PPE released	34
Income per financial statements	2,211

Source: audit working papers

Expenditure

There were a number of movements in expenditure in the year which contribute to an overall increase in spend to 31 March 2013:

- A+DS operates on a cash basis throughout the year and there were planned increases in cash expenditure in the year to utilise available resources. Increased spend primarily relates to exhibition costs, however, other expenditure also increased due to higher costs incurred on publications and travel expenses.
- An exercise was undertaken in the year to consolidate the fixed assets register and test entries for existence, resulting in a number of disposals and decreasing the depreciation expense in the year.
- Staff costs continue to be A+DS's largest expense, and are consistent with the prior year, allowing for movements in employee numbers in year.
- Rental costs under operating leases have decreased since the prior year. This is a result of a re-evaluation of utilised space within the Lighthouse by A+DS, leading to a reduction in rent of £25,000. This will generate future savings of £10,000 a year.

Financial plans 2013-14

The initial grant-in-aid letter from the Planning and Architecture Division shows income from the Scottish Government of £1,739,000 for the 2013-14 year. This is a decrease on 2012-13 funding levels, particularly within the core grant-in-aid and Schools programmes.

A business plan exercise has been undertaken to map the core income to corporate projects for the year, and the results of this are summarised below. As the majority of A+DS expenditure relates to staff costs (2012-13: £1,130,000), this leaves around £300,000 of non ring-fenced funding available for 2013-14.

	2013-14 £'000
Grant-in-aid (Non ring-fenced)	1,440
Grant-in-aid (Health Programme; ring-fenced)	149
Grant-in-aid (Schools Programme; ring-fenced)	150
Total income	1,739
Collaborating	36
Supporting	51
Inspiring	58
Delivering effectively	13
Project income	158

Source: 2013-14 business plan

As a response to tightening budgets, A+DS introduced an internal bidding process for project funding within the 2011-12 year and this has continued to be used for all budget years going forward. This process requires all business units, apart from Schools Design and Healthcare Design which receive designated ring-fenced funding, to submit applications for proposed spend in the year. The projects are then evaluated centrally for alignment to key strategic goals within the corporate plan, and funding is allocated accordingly.

The largest projects in the 2013-14 plan are:

- **placemaking and housing** – a project to support the delivery of sustainable housing in Scotland;
- **materials library** – production of a library of sustainable building products to disseminate information to clients and funders on the use of sustainable materials within construction;
- **habitat/Home** – an exhibition showcasing innovative and common sense solutions to current housing issues for future development, The project also has an interactive element and invites exhibition visitors to feedback on their personal ideas of 'home' and the necessary elements of housing environments; and
- **curriculum toolkit** – a toolkit of lesson plans and resources to support architecture and design within the curriculum for excellence with the aim of inspiring and promoting a greater awareness of the importance of local communities.

The status of projects is assessed on a bi-monthly basis throughout the year using a red-amber-green ('RAG') system, and the results of this are presented to the management board. This monitoring allows for timely identification of slippage to allow for intervention and remedial action, where required.

Each of the projects directly supports the aims of the corporate plan:

- collaborating to achieve good architecture and sustainable places;
- supporting and influencing partners to create the best buildings; and
- inspiring Scottish people to value good architecture / sustainability.

A+DS is currently in the process of drafting the Corporate Plan 2014-2017 and updates on this have been presented to the Board throughout the year. The Corporate Plan is expected to be presented to the Cabinet Secretary in April 2014.

Performance management

Our perspective on the performance
management arrangements, including follow
up work on Audit Scotland reports

In 2012-13, management have continued to implement processes to support the provision of Best Value within A+DS on a proportionate basis.

The annual financial statements also consider the impact of corporate expectations as outlined in the letter from the Director General, Governance and Communities.

<p>Best Value</p>	<p>In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure there are arrangements designed to secure Best Value. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).</p> <p>We reviewed certain processes that A+DS has in place to ensure Best Value is achieved. A+DS implemented a procurement policy 2011-12 which conforms to Scottish Government best practice in procurement. It states that three written quotes are required for expenditure between £2,000 and £49,999, expenditure greater than £50,000 requires a tender, and for expenditure over £101,000, EU procurement guidance must be followed.</p> <p>In order to drive efficiency savings, management has worked to in-source a number of arrangements where possible. This has required investment in certain areas, for example, in computer software and is expected to be a feature in future years.</p> <p>The procurement policy is now supported by an updated scheme of delegation which was approved by board in 2012-13. This sets out levels of responsibility for proposing and authorising expenditure, with ultimate power of authority resting with the board for individual items over £50,000. A+DS also has delegated authorities for expenditure up to £10,000 on capital items, although, above this level departmental approval must be sought; this is also true for disposals of capital items with a net realisable value of £10,000 or more.</p>
<p>Performance management</p>	<p>Financial performance is monitored during the year on the basis of cash spend against budget. Corporate performance is effectively monitored through delivery of planned projects in year utilising the RAG system referred to on page six. Management do not currently utilise key performance indicators ('KPIs') but are currently considering implementing suitable measures going forward. These will be aligned to the new corporate plan once it has been finalised.</p> <p>This is an area we would encourage management to focus on in 2013-14 to ensure appropriate arrangements are put in place in time for the new corporate plan.</p>
<p>Corporate expectations</p>	<p>The Director General, Governance and Communities wrote to public bodies on corporate expectations in July 2012 asking for a preliminary assessment of progress. Management have considered the progress of A+DS against these expectations and have provided appropriate commentary within the annual director's report. In 2012-13, A+DS continued to focus on strategic issues which affect Scotland, which align with their business plan, and which support the aims of the Scottish Government. In particular, A+DS state its continued focus to increasing employment opportunities for young people and to developing a sustainable and low-carbon economy, particularly through collaborations with external partners.</p>

Governance and narrative reporting

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement

Update on controls findings from our audit

We updated our understanding of the governance framework and did not identify any issues in relation to governance.

<p>Annual governance statement and governance arrangements</p>	<p>The 2012-13 annual governance statement for 2012-13 outlines the corporate governance and risk management arrangements that operated during the financial year. It provides detail on the governance framework, the system of internal control, internal audit, internal financial controls and risk management arrangements and analyses the effectiveness of these elements of the framework. It describes a number of sources of assurance for the accountable officer.</p> <p>The statement, which is made by the accountable officer, considers the effectiveness of the system of internal control based on information provided by the audit and risk committee and internal audit. The statement identifies no significant risk-related matters and no significant lapses of data security.</p> <p>Our testing of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively, and we did not identify any issues. We consider the governance framework and annual governance statement to be appropriate and commensurate with the size and nature of A+DS.</p>
<p>Annual report, including the management commentary</p>	<p>The financial statements form part of the annual report of A+DS for the year ended 31 March 2013. We are required to consider the management commentary and provide our opinion on the consistency of it with the financial statements.</p> <p>We are satisfied that the information contained within the management commentary is consistent with the financial statements.</p> <p>Changes to the UK Corporate Governance Code, which maybe applicable for year ending 31 March 2014, may require that the “front end” narrative reporting is “fair, balanced and understandable”. Audit committees will be expected to consider this as part of their consideration of the annual report and financial statements in 2013-14.</p> <p>In our view, the annual report already complies well with this requirement, although we recommend early consideration of the requirements of the revised Code against the reporting format of A+DS.</p>
<p>Remuneration report</p>	<p>A substantially complete draft of the remuneration report was provided in advance of the commencement of the audit, supported by good quality information for the disclosures provided. The pensions figures were not available until 9 July 2013. This was due to sector-wide delays in receiving information from the actuary and was outwith the control of A+DS.</p>

<p>Internal audit</p>	<p>At the time of our audit fieldwork, there were no completed internal audit reports available for the year 2012-13. We have reviewed minutes of relevant committees in the year, and confirmed that the areas of focus for internal audit for the year were agreed as:</p> <ul style="list-style-type: none"> ■ IT strategy; ■ internal financial systems; ■ business planning; ■ health and safety policy; and ■ performance management. <p>No significant issues were identified as a result of these reviews.</p> <p>The areas of focus have been agreed as supporting the preparation of the corporate plan 2014-2017.</p>
<p>Prevention and detection of fraud</p>	<p>Procedures related to fraud are designed and implemented effectively. Expenditure is proposed and authorised according to the scheme of delegation and there is evidence of segregation of duties for the posting of journals. This follows recommendations made in our 2011-12 annual audit report. Income is distributed to programmes following a bidding process which allows for close scrutiny and monitoring of regularity of expenditure by project managers throughout the year.</p> <p>In 2012-13, there were no instances of fraud or irregularity identified either by management, or through the course of our external audit work.</p>

Financial statements and accounting

Our perspective on the preparation of the
financial statements and key accounting
judgements made by management

Accounting framework and application of accounting policies	
Area	KPMG comment
Financial reporting framework	<ul style="list-style-type: none"> ■ A+DS prepared the financial statements in accordance with the Government's Financial Reporting Manual 2012-13 ("FReM"). ■ During the year there have been no substantive changes in financial reporting requirements, and consequently there are no material changes to the accounting policies of A+DS. ■ Income recognition remains a key accounting policy for A+DS. ■ We are satisfied that the accounting policies adopted remain appropriate to A+DS.
Impact of revised accounting standards	<ul style="list-style-type: none"> ■ No newly effective accounting standards are considered to have a material impact on the financial statements of A+DS.
Going concern	<ul style="list-style-type: none"> ■ The financial statements have been prepared under the assumption that the organisation is a going concern. Given the nature of A+DS, this is a reasonable assumption and a balanced budget has been set for 2013-14 which indicates that the organisation will continue to operate.

We expect to issue an unqualified audit opinion on the financial statements and the regularity of transactions reflected in those financial statements.

The financial statements were made available on a timely basis and were accompanied by high quality working papers.

Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of A+DS's affairs as at 31 March 2013, and of the financial statements for the year then ended. We have also provided our unqualified opinion on the regularity of transactions within the year. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements; and
- attended the audit committee to communicate our findings to those charged with governance, but also to update our understanding of the key governance processes and obtain key stakeholder insights.

Financial statements preparation

Preparation of the financial statements

- Quality working papers and substantially complete draft financial statements were provided at the start of the audit fieldwork in June 2013. The standard of documentation was good with clear working papers and there was evidence of accountability and ownership of documentation.
- As part of planning for the audit, we engaged with management to ensure the overall process was improved from the prior year. This included the disclosure requirements of the FReM. In the prior year, we provided feedback to management on the content of the financial statements, annual report and remuneration report, and we are pleased to report that the 2012-13 financial statements took account of these and were consequently prepared appropriately.
- There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.

Appendices

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	<p>There was one audit adjustment required to the draft financial statements which related to a pre year end payment of £179,000. Due to timing differences with bank holidays and the transmission of the BACS payment, this did not leave the bank until 2 April 2013.</p> <p>As the relevant payment had not left the bank account by the year end, it was reversed in the financial statements. An explanatory note has been placed in the narrative of the cash disclosure to explain this position.</p> <p>There is no net effect to the Statement of Comprehensive Net Expenditure.</p>	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	<p>We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.</p> <p>There are no unadjusted audit differences relating to the financial statements.</p>	-
Confirmation of Independence Letter issued by KPMG to the Audit Committee	<p>We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff.</p>	Appendix 3
Schedule of Fees Fees charged by KPMG for audit and non-audit services	<p>No non-audit services were provided in 2012-13.</p>	-
Draft management representation letter Proposed draft of letter to be issued by Historic Scotland to KPMG prior to audit sign-off	<p>There are no significant changes to the standard representations required for our audit from last year.</p>	-

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Agency.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by Architecture and Design |Scotland for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Chief Executive.

Confirmation of audit independence

We confirm that as of 2 September 2013, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1 Declaration of interests – board members</p> <p>The A+DS website contains details of interests held by the board of directors. Directors are required to note any interests at the beginning of board meetings in which a possible conflict could arise. Although this is extensive, review of the website indicates that registers of interest have not been updated since 2010, and there is a risk that any new interests are, therefore, not available for public scrutiny.</p> <p>We note that discussions with management and audit procedures did not identify any undisclosed related party transactions.</p>	<p>It is recommended that management complete an annual confirmation of interests which is maintained on the A+DS website.</p>	<p style="text-align: center;">Grade three</p> <p>We will review the contents of the A+DS website and ensure this information is brought up to date. We will ensure a policy is put in place to update the website for the declarations of Interests of Board members on an annual basis.</p> <p>Responsible officer: Lynne Lineen</p> <p>Implementation date: 31 December 2013</p>



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