



*cutting through complexity*

# Architecture + Design Scotland

Annual audit report to the Board of Directors of Architecture + Design  
Scotland and the Auditor General for Scotland

Audit: year ended 31 March 2014

25 November 2014

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in connection with this  
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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 ('A+DS') and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

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 summarises our work in relation to the financial statements for the year ended 31 March 2014.

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

Area	Summary observations	Analysis
<b>Service overview</b>		
<b>Business issues and financial position</b>	<p>2013-14 is the last year of the three year corporate strategy. Total funding agreed with the Scottish Government was £1.74 million for the year to 31 March 2014, split by core funding of £1.44 million, £0.15 million for the Schools programme and £0.15 million for the Health programme. Health programme income was reduced in the Spring Revision by £0.1 million due to projected underspend against available funding.</p> <p>In 2013-14 A+DS recognised a total deficit of £0.15 million. The deficit is primarily driven by reduced levels of deferred income brought forward for recognition in the year to 31 March 2014. Staff costs also increased as a result of the 1% pay award.</p>	Page 6
<b>Financial statements and accounting</b>		
<b>Audit conclusions</b>	We have issued an unqualified audit opinion on the 2013-14 financial statements, following their approval by the Board in October 2014.	Page 10
<b>Significant risks and audit focus areas</b>	<p>As set out in the audit strategy document, we considered revenue recognition and management override of controls during the audit; both inherent significant risks that the ISAs requires us to raise with you.</p> <p>We identified no misstatements in respect of revenue recognition and no instances of management override of controls.</p>	Page 10
<b>Accounting policies</b>	<p>There have been no changes to accounting policies applied to the financial statements in the year to 31 March 2014. In addition, there are no newly effective accounting standards expected to have a material impact on next year's financial statements.</p> <p>Updates to the FReM for 2013-14 set out the requirement for organisations to prepare a strategic report, enhancing the disclosures previously made within the directors' report.</p> <p>The financial statements have been appropriately prepared on a going concern basis, with which we concur.</p>	Page 11
<b>Year-end process</b>	<p>The financial statements, directors' report, governance statement and remuneration report were received by the agreed date and were supported by high quality working papers. During the audit we supported management in addressing the requirement to include a strategic report for the first time; the report was completed during the fieldwork.</p> <p>KPMG identified no audit differences during the fieldwork.</p>	Page 12

Area	Summary observations	Analysis
<b>Governance and narrative reporting</b>		
Governance	Our review of governance arrangements did not identify any issues, we consider the arrangements to be appropriate for the size and operations of A+DS.	Page 14
Control observations	Our testing of 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.	Page 12
<b>Performance management</b>		
Performance management	Our review of budget setting processes and the provision of management information in the year supports a strong performance management framework within the organisation.	Page 17

### Purpose of this report

The Auditor General for Scotland (“the Auditor General”) has appointed KPMG LLP as auditor of Architecture + Design Scotland (“A+DS”) under the Public Finance and Accountability (Scotland) Act 2000 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at A+DS and the Auditor General for Scotland. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit committee at the outset of our audit.

### Responsibilities

Audit Scotland’s *Code of Audit Practice* (“the Code”) sets out A+DS’s responsibilities in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit committee, together with previous reports to the committee throughout the year, discharges the requirements of ISA 260.

# Service overview

Our perspective on key business issues and  
the financial position of A+DS

A+DS continues to deliver services within a challenging external environment. Grant-in-aid receivable from the Scottish Government was reduced in the year, and further reductions have been communicated for 2014-15.

## Financial performance

A+DS, as a not-for-profit body, aims to achieve a break-even position at the end of each financial year. For the year to 31 March 2014 the reported deficit is £0.154 million, the increase on the prior year is primarily the result of reduced grant-in-aid, lower deferred income brought forward and increased staff costs.

	Actual 2012-13 £'000	Actual 2013-14 £'000	Variance £'000
Grant-in-aid	1,845	1,724	(121)
Other income	366	58	(308)
<b>Total income</b>	<b>2,211</b>	<b>1,782</b>	<b>(429)</b>
Staff costs	(1,130)	(1,157)	(27)
Other expenditure	(1,000)	(779)	221
<b>Total expenditure</b>	<b>(2,130)</b>	<b>(1,936)</b>	<b>194</b>
<b>Net surplus/(deficit)</b>	<b>81</b>	<b>(154)</b>	<b>(235)</b>

*Source: draft financial statements*

## Grant-in-aid

Lower grant-in-aid income reflects funding constraints in the present economic environment, as well as being attributable to a reduction in funding of £0.014 million as provided in the Spring Budget Revision. Further consideration of income is provided on page 7.

## Other income

Other income primarily comprises deferred income brought forward from 2012-13 for recognition and utilisation in the year to 31 March 2014. For 2012-13 deferred grant-in-aid was £0.204 million resulting in a large other income balance in 2012-13.

A drive to fully utilise budgeted income in the year led to reduced levels of deferred income at 31 March 2013, ultimately reducing the level of other income recognised in the year to 31 March 2014.

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

Income reconciliation	£000
Cash received	1,850
Income deferred from 2012-13	25
Income deferred to 2014-15	(162)
Income accrued in 2013-14	49
Grant-in-aid related to PPE released	20
<b>Income per financial statements</b>	<b>1,782</b>

*Source: audit working papers*

## Other expenditure

Staff costs increased compared to the prior year, reflecting the national pay award of 1% across the public sector. Staff costs continue to comprise the majority of spend, although other expenditure decreased in the year. The key areas of reduced expenditure are:

- travel and expenses;
- research; and
- exhibition costs.

With a desired break-even position, the lower expenditure is consistent with our understanding of the organisation, aligned to the lower grant-in-aid and reduced funding for specific projects. A+DS introduced efficiencies during the year, such as the use of enhanced design software to maximise in-house print work and the disposal of franking machinery for postage.

A+DS held cash balances of £0.163 million as at 31 March 2014. This primarily relates to unspent income, to be deferred to 2014-15. This treatment has been agreed with the sponsor division.

Grant-in-aid is budgeted to reduce in 2014-15, by 2% from 2013-14 to £1.689 million.

### Statement of financial position

Current asset balances decreased by £0.239 million compared to the prior year. The largest movements are in respect of:

- decreased prepayments; and
- decreased cash balances.

Prepayments are lower because a full year's rent was prepaid as at 31 March 2013 for the Edinburgh and Glasgow offices; this was not repeated as at 31 March 2014 and the related balance is £0.115 million lower than the prior year.

Cash reduced by £0.119 million compared to 31 March 2013, as a result of the deficit for the year and also the timing of payments to creditors in respect of 2012-13, with a larger proportion paid post year end in that year.

Deferred income to be recognised in 2014-15 is £0.154 million, an increase on the prior year of £0.128 million. Reserves reduced as a result of the deficit in the year.

	Actual 2012-13 £'000	Actual 2013-14 £'000	Variance £'000
Fixed assets	49	38	(11)
Trade and receivables	223	93	(130)
Cash and cash equivalents	282	163	(119)
<b>Total assets</b>	<b>554</b>	<b>294</b>	<b>(260)</b>
Trade payables	(430)	(325)	105
<b>Total liabilities</b>	<b>(430)</b>	<b>(325)</b>	<b>105</b>
<b>Reserves</b>	<b>124</b>	<b>(31)</b>	<b>(155)</b>

Source: draft financial statements

### Financial plans 2014-15

A+DS receives grant-in-aid from the Government to fund activities, received primarily through the Planning and Architecture Division ('PAD'). Funding in respect of education and healthcare is provided by the School Infrastructure Unit and Health and Social Care Division respectively. The final income received in grant-in-aid for the year to 31 March 2014 is set out below, compared to the budget for the year and indicative funding for 2014-15.

	Actual 2013-14 £'000	Budget 2013-14 £'000	Budget 2014-15 £'000
Core grant-in-aid	1,440	1,440	1,365
Health programme	134	149	149
Schools programme	150	150	175
<b>Total grant-in-aid funding</b>	<b>1,724</b>	<b>1,739</b>	<b>1,689</b>

Source: A+DS management information, Scottish Government budget allocation letters

The majority of A+DS expenditure relates to staff costs (2013-14 £1.157 million), leaving around £0.208 million of non ring-fenced funding available for other expenditure in respect of 2014-15. Core grant-in-aid is used to fund projects within the Urbanism, Design Forum, Sust., and Access to Architecture programmes, and is linked to the performance of the Scottish Government's National Outcomes through A+DS's corporate strategy.

Reductions in core grant-in-aid for 2014-15 are partially offset by greater funding for the Schools and Health programmes. The grant-in-aid letter sets out the requirements of A+DS in respect of delivering programmes.



### Financial plans 2014-15 (continued)

The 2014-15 budget for A+DS includes £0.131 million of other income, of which £0.114 million relates to ring-fenced funding for the 'Stalled Spaces' programme. Stalled Spaces Scotland is a national initiative which aims to support local authorities in bringing derelict land back into temporary use for the benefit of communities.

Stalled Spaces aligns with the Scottish Government's Town Centre Action Plan and First Principle and, following the example of Glasgow City Council's own initiative, seeks to develop 30 stalled spaces sites across Scotland by December 2016. A period of consultation with local authorities has now commenced and an invitation for expressions of interest has been extended via the A+DS website. Grant funding will be provided to authorities on a 50% match funding basis, and authorities will then be responsible for developing the stalled spaces with the support of A+DS and Glasgow City Council.

Other income budgeted for 2014-15, outwith grant-in-aid, includes £8,000 of funding from Scottish Natural Heritage which will support A+DS' Urbanism project spend.

### Corporate strategy 2014-2017

The new corporate strategy, effective from 1 April 2014, sets out the objectives of A+DS over the three years to 2017. These are to:

1. help create better buildings, streets and sustainable places in Scotland;
2. encourage more people to get involved in making sustainable places;
3. increase the understanding of architecture and design within the planning system;

4. promote Scottish architecture and design nationally and internationally;
5. provide leadership for our sector; and
6. deliver high-quality services which are continually improving.

Each of the objectives contributes towards the Scottish Government National Outcomes, and detailed actions to be taken to achieve objectives are outlined in the supporting business plans.

Key actions to be undertaken in 2014-15 relate to improving sustainability within Scotland. These are listed in the business plan as:

- maintaining and developing the materials library of sustainable building products;
- delivering three major events on low carbon economy; and
- begin work on the national Stalled Spaces initiative.

A+DS will also continue to deliver ongoing programmes and services, such as the Design Skills Symposium and a number of architecture and design award shows.

### Building rationalisation

A+DS is seeking to rationalise operated estate to reduce core running costs. The two leases held on properties in Glasgow and Edinburgh are due for expiry in 2016, and consideration is now being given to the identification of possible new premises.

Rental costs on the Glasgow office were reduced to £0.075 million for 2013-14 to reflect a reduction in the floor space used by A+DS. Despite the reduction in rent, the expenditure incurred by A+DS in respect of the property has increased due to irrecoverable VAT due on the rental payments. This increase has also contributed to the need to rationalise estate and associated costs.

# Financial statements and accounting

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

**We have issued an unqualified audit opinion on the financial statements and the regularity of transactions reflected in those financial statements.**

**International Standards on Auditing require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk and that management override of controls is a significant risk. We have satisfactorily carried out audit work to address these risks.**

### Audit conclusions

Following approval of the financial statements by the Board we have issued an unqualified opinion on the truth and fairness of the state of A+DS's affairs as at 31 March 2014, and of the deficit for the year then ended. We also have issued an 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 controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- reviewed the reports of internal audit as issued to audit committee to ensure all key risk areas which may be viewed to have an impact on the financial statements have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended the audit committee to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

### Significant risks

#### Revenue recognition

Whilst the income stream is relatively simple, we have assessed that the fraud risk from income recognition is a significant risk, in line with Professional Standards. The primary source of income is received through grant-in-aid from the Scottish Government and receipt was vouched to award letters. Deferred income balances from prior year grant-in-aid were reviewed to ensure that they had been correctly accounted for within the financial statements to 31 March 2014, and deferred income balances arising from 2013-14 funding were also reviewed to agree accounting treatment.

#### Management override of controls

To address this risk, we have performed testing of journal entries during the year and at the year end, undertaken a review of unusual transactions in the year, made enquiries with employees outside the finance department, incorporated audit tests of an unpredictable nature and undertaken testing of controls, including 'higher level' controls.

Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

All accounting policies have been applied consistently in the year to 31 March 2014.

Changes to the financial reporting framework as set out in the Government's *Financial Reporting Manual* ("FReM") have resulted in the preparation of a strategic report for the first time.

The financial statements have been prepared on a going concern basis; we are satisfied that this is appropriate.

<p><b>Financial reporting framework</b></p>	<ul style="list-style-type: none"> <li>■ A+DS prepares financial statements in accordance with the principles of the Government's Financial Reporting Manual 2013-14 ("FReM").</li> <li>■ Changes to the FReM in 2013-14 require A+DS to prepare a strategic report in line with section 414C of the Companies Act 2006, as interpreted by the FReM. The strategic report requirements include disclosures previously required within the directors' report and new disclosures (where not previously included) on social, community and human rights issues, a description of the body's strategy and business model and a gender break down of directors, senior managers and employees. Appropriate disclosure has been included within the strategic report as noted on page 14.</li> <li>■ Other changes to the FReM require the remuneration report to include a single total banded figure for directors' remuneration, inclusive of salary, taxable benefits and pension benefits.</li> <li>■ We are satisfied that the accounting policies adopted remain appropriate for the entity, and have been consistently applied.</li> </ul>
<p><b>Impact of revised accounting standards</b></p>	<ul style="list-style-type: none"> <li>■ There are no newly effective accounting standards to be applied to the financial statements, or that could be considered to have a material impact on A+DS's financial statements in the current year.</li> </ul>
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>■ The financial statements have been prepared under the assumption that the organisation is a going concern. Communication has been received from the Scottish Government detailing the agreed funding for 2014-15 and the budget for the year to 31 March 2015 shows a net surplus of £0.044 million. The deficit as at 31 March 2014 incorporated deferred income balances which will be recognised in the year to 31 March 2015, giving rise to the budgeted surplus. In view of the continued support from the Scottish Government and the forecast results, we concur with the going concern assumption.</li> </ul>

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

Our testing of the design and operation of financial controls over significant risk points confirmed these were operating effectively.

<b>Financial statements preparation</b>	<p>Preparation of the financial statements</p> <ul style="list-style-type: none"> <li>High quality working papers and substantially complete draft financial statements were provided at the start of the audit fieldwork in June 2014. This included the directors' report and remuneration report. The strategic report was compiled by management during the audit fieldwork and was available for our review prior to completion.</li> <li>During the year we had correspondence with the finance team to ensure that disclosure within the financial statements was consistent with the requirements of the FReM. We provided feedback to management on the content of the strategic report and remuneration report, and we are pleased to report that these were consequently prepared appropriately.</li> </ul>
<b>Internal controls</b>	<ul style="list-style-type: none"> <li>A+DS management is responsible for designing and implementing appropriate internal control systems. Our testing, combined with that of internal audit, of 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.</li> </ul>
<b>Other matters</b>	<ul style="list-style-type: none"> <li>Mandatory communications required by International Standards on Auditing are given in appendix one. There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.</li> </ul>

# 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.**

**The remuneration report incorporates the new requirement to disclose a single remuneration figure.**

<p><b>Annual governance statement and governance arrangements</b></p>	<p>The statement for 2013-14 outlines the corporate governance and risk management arrangements in operation in 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 that there have been no significant risk-related matters.</p> <p>We have updated our understanding of the governance framework and documented this through our overall assessment of the A+DS's risk and control environment. This work has formed part of our assessment of the annual governance statement. We consider the governance framework and annual governance statement to be appropriate for A+DS.</p>
<p><b>Annual report, including the strategic and director's report</b></p>	<p>The financial statements form part of the annual report of A+DS for the year ended 31 March 2014. Following amendments to the Companies Act effective for 2013-14, A+DS is required to include both a strategic and a director's report as part of this annual report. We provided management with assistance in the preparation of the strategic report and outlined the requirements for disclosure. We subsequently reviewed the contents of the strategic and directors' report against the revised requirements and are content with the proposed report.</p> <p>We are required to consider the strategic and directors' reports, and provide our opinion on the consistency of it with the financial statements. We are satisfied that the information contained within the strategic and directors' report is consistent with the financial statements.</p>
<p><b>Remuneration report</b></p>	<p>The remuneration report was included within the draft financial statements and supported by good quality information and working papers. The 2013-14 FReM included an additional requirement for disclosure of total directors' remunerations as a single figure; this has been correctly included within the financial statements.</p>

**We reviewed the work of internal audit, to inform our testing. We consider that the internal audit plan is appropriate for size and nature of A+DS.**

**No matters of a fraud nature or in respect of conduct were identified during the audit.**

<p><b>Internal audit</b></p>	<p>We reviewed the work of internal audit in 2013-14 to inform our assessment of risks that need to be considered and addressed during the audit. Our review of internal audit reports also helps ensure that any duplication of work is avoided.</p> <p>The content of the internal audit plan is, in our view, appropriate for the size and nature of A+DS. The 2013-14 internal audit plan considered:</p> <ul style="list-style-type: none"> <li>■ payroll;</li> <li>■ ICT strategy; and</li> <li>■ business planning and performance management.</li> </ul> <p>Only the payroll report has been finalised to date, concluding that processes over payroll are good and there were no recommendations arising.</p> <p>Work on the ICT strategy and business planning audits was ongoing as at the year-end, however recommendations arising from these reviews are unlikely to impact on the internal control framework operated in respect of the financial statements. Due to the areas of focus of internal audit in the year, we did not place specific reliance on any of the reports issued in the year, but they supported our understanding of A+DS's operations and assessment of overall systems of internal control.</p>
<p><b>Prevention and detection of fraud</b></p>	<p>Procedures and controls related to fraud are designed and implemented effectively. Purchase order controls exist over expenditure, with the raising and authorisation of purchase orders limited to within the finance team. Purchase invoices must then be matched to an authorised purchase order for payment. There is also evidence of segregation of duties within journals processing.</p> <p>In 2013-14 no significant or other fraud or irregularity was identified by management, internal audit, or through the course of our external audit work.</p>
<p><b>Arrangements for maintaining standards of conduct and the prevention and detection of corruption</b></p>	<p>We consider that A+DS has appropriate arrangements to prevent and detect inappropriate conduct and corruption. Policies and codes of conduct are available for staff and board members, supported by whistle blowing procedures consistent with the Public Interest Disclosure Act. Board members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance – material or otherwise – to their work within A+DS.</p> <p>The human resource policies have been subject to an updating exercise in the year to ensure that they meet best practice requirements in respect of applicable laws and regulations. Where updates have been made, an email is sent around staff within A+DS to direct their attention to the new policy, ensuring visibility and awareness within the organisation.</p>



# Performance management

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

**We set out A+DS's approach to Best Value and Performance Management.**

<p><b>Best Value</b></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 considered Best Value as part of our audit procedures and made enquiries of management regarding the delegated authorities for authorising and approving expenditure. The scheme of delegated authority was updated in February 2014 as part of the rolling process of policy updates. The scheme sets out the roles of the Board, Chief Executive and management team and lists, in detail, the responsibilities retained by Board or otherwise delegated to the Chief Executive. Financial limits are then set by grade for proposing expenditure (e.g. raising a purchase order) and for separately authorising the same.</p> <p>A+DS also demonstrate Best Value principles in their use of outsourcing for both internal audit and payroll processes. The use of third parties to provide core services reduces administrative and staff costs within the organisation without impacting on their provision. A+DS have also sought to achieve cost efficiencies within administration by reducing the size of estate, thereby reducing rental costs, and through the use of standard mail to replace costly franking machines previously operated. The continued drive for cost efficiencies will help the organisation to continue to provide architectural and design support in light of reducing budgets, and is also supported by strong reporting and monitoring processes.</p>
<p><b>Performance management</b></p>	<p>An annual budget process is undertaken annually between December and February. The process starts by looking at the proposed grant-in-aid income for the upcoming financial year, less any known costs such as staff costs, rent and utilities. The remaining balance is then subject to a project bidding process to allocate the uncommitted resource. Previously, uncommitted income was allocated at the start of the year, however from 2013-14 some of the spare resource has been held back to allow for ad hoc requests to be granted in the year. Proposals for funding must be supported by project budgets and must demonstrate fulfilment of strategic objectives, as outlined in the 2011-2014 and 2014-17 strategic plans.</p> <p>Management accounts are presented to the audit committee on a quarterly basis and key messages are escalated to the Board. In addition, reports are made available for key management on a monthly basis, and project expenditure is tightly regulated within finance to ensure that there are funds available throughout the year to deliver aims.</p>

# Appendices

There were no changes to the core financial statements and one unadjusted difference, the most likely difference in the financial statements.

Area	Key content	Reference
<b>Adjusted audit differences</b> Adjustments made as a result of our audit	We have no audit differences to present.  A small number of minor presentational adjustments were required to some of the financial statements notes.	-
<b>Unadjusted audit differences</b> Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.  There are no unadjusted audit differences.	-
<b>Confirmation of Independence</b> Letter issued by KPMG to the Audit Committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff.	Appendix two
<b>Schedule of Fees</b> Fees charged by KPMG for audit and non-audit services	£5,475 for audit services. There were no non-audit services.	-
<b>Draft management representation letter</b> Proposed draft of letter to be issued by the Commission to KPMG prior to audit sign-off	There are no significant changes to the standard representations required for our audit from last year.	-

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

**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 A+DS 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 31 October 2014, 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



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