



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 2015

8 October 2015

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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 the Architecture and Design Scotland and is made available to Audit Scotland and the Auditor General for 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 circumstances set out in the executive summary: scope and responsibilities.

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 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.



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 summarises our work in relation to the financial statements for the year ended 31 March 2015.

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

Area	Summary observations	Analysis
Strategic overview		
Key issues and update	<p>2014-15 was the first year of the three year corporate strategy 2014-2017. Total funding agreed with the Scottish Government was £1.74 million for the year, split by core funding of £1.42 million, £0.17 million for the Schools programme and £0.15 million for the Health programme.</p> <p>Architecture and Design Scotland ('A+DS') is continuing to reduce operating costs and completed an accommodation review in 2014-15 to coincide with the expiration of the existing property leases in 2015-16. The outcome of the review is due for consideration by Scottish Government and subsequent approval.</p>	Page 6
Financial position	The surplus for 2014-15 was £0.011 million compared to a deficit of in the prior year £0.15 million. The increase was a result of greater 'other income' and tight control over costs. Net liabilities as at 31 March 2015 were £0.02 million.	Page 7
Financial statements and accounting		
Audit conclusions	<p>We have issued an unqualified audit opinion on the 2014-15 financial statements, following their approval by the Board.</p> <p>The financial statements, draft strategic report, directors' report, governance statement and remuneration report were received at the start of audit fieldwork and were supported by high quality working papers.</p>	Page 10
Going concern	The financial statements have been prepared under the assumption that the organisation is a going concern. In view of the continued support from the Scottish Government and the forecast results, we concur with the going concern assumption.	Page 13
Accounting policies	<p>There have been no changes to accounting policy applied by A+DS in 2014-15.</p> <p>No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.</p>	Page 13

Area	Summary observations	Analysis
Financial statements and accounting (continued)		
Significant risks and audit focus areas	<p>The areas highlighted below are the specific audit focus areas identified within our audit strategy document:</p> <ul style="list-style-type: none"> ■ revenue recognition fraud risk; ■ management override of controls fraud risk; ■ accounting for expenditure; and ■ trade and other payables. <p>The audit work has been completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.</p>	<p>Pages 11 and 12</p>
Governance and narrative reporting		
Governance	<p>Our review of the governance arrangements did not identify any issues, we consider the arrangements to be appropriate for the size and operations of A+DS.</p>	<p>Page 16</p>
Internal controls	<p>Testing of the design and operation of financial controls over significant risk points concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively. One recommendation is included in the action plan in respect of a payment paid in error to a supplier.</p> <p>An internal audit tender was performed during the year and a new provider appointed. No internal audits were performed during 2014-15.</p>	<p>Page 16 and page 24</p>
Performance management		
Performance management	<p>Our review of A+DS's performance management arrangements in the year to 31 March 2015 indicates that these continue to be appropriate. A+DS continues to monitor and control its expenditure, with awareness of value for money.</p>	<p>Page 19</p>

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. 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.

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.

Accountable officer responsibilities

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

- preparation of financial statements that show a true and fair view;
- 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.

Auditor responsibilities

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.

Scope

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 audit committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and financial position

2014-15 represents the first year of the corporate strategy 2014-2017.

Management is considering the accommodation required by A+DS, in the context of a reducing budget.

Corporate strategy 2014-2017

2014-15 was the first year of the new corporate strategy, effective from 1 April 2014, which 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.

Management is continuing to form the key performance indicators which will be used to monitor and challenge achievement of the objectives.

Accommodation review

A+DS is seeking to rationalise the estate to reduce core running costs. The leases for the properties in Glasgow and Edinburgh expire in 2016 and management is considering options to reduce lease costs whilst retaining a presence in both cities. An accommodation review was completed in period 2014-15. The outcome of the review is to be put before Scottish Ministers, with the view of approval during 2015-16.

Stalled Spaces

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.

Grant funding is provided to authorities on a 50% match funding basis and local authorities are responsible for developing the stalled spaces with the support of A+DS and Glasgow City Council. In 2014-15 Stalled Spaces income of £0.1 million was received which was used to fund grants totalling £0.06 million, and staff costs for employees involved in delivery of the Stalled Spaces project.

A+DS continues to deliver services within a challenging external environment. Grant-in-aid receivable from the Scottish Government was expected to reduce in the year. However, due to additional core funding of £0.05 million, the actual grant-in-aid was increased on the prior year.

Financial position

Statement of comprehensive income

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 2015 the reported surplus is £0.011 million, the increase on the prior year is primarily the result of greater other income which partially contributed towards salary costs.

	Actual 2014-15 £'000	Actual 2013-14 £'000	Variance £'000
Grant-in-aid	1,737	1,724	13
Other income	254	58	196
Total income	1,991	1,782	209
Staff costs	(1,175)	(1,157)	(18)
Other expenditure	(805)	(779)	(26)
Total expenditure	(1,980)	(1,936)	(44)
Net surplus/(deficit)	11	(154)	165

Source: draft financial statements

Grant-in-aid

Due to £0.05 million additional grant-in-aid core funding provided during 2014-15, income increased from 2013-14.

Other income

Other income comprises deferred income brought forward from 2013-14 for recognition and utilisation in the year to 31 March 2015, as well as non-core income. The increase compared to the prior year reflects the greater deferred income brought forward balance and additional Stalled Spaces income.

Total income recognised during the year is reconciled to the cash received below:

Income reconciliation	£000
Cash received	1,961
Income deferred from 2013-14	162
Income deferred to 2015-16	(175)
Income accrued in 2014-15	31
Grant-in-aid related to PPE released	12
Income per financial statements	1,991

Source: audit working papers

Other expenditure

Staff costs increased compared to the prior year, reflecting the increases to ensure alignment with Scottish Government pay scales. Staff costs continue to comprise the majority of spend, although other expenditure also increased in the year due to additional £0.062 million Stalled Spaces grant expenditure.

A dilapidation provision of £0.043 million is recognised as at 31 March 2015 and reflected in other expenditure. This represents an estimation of dilapidation costs to return the Edinburgh property to its original condition per the lease agreement on expiry in April 2016.

A+DS held cash balances of £0.184 million as at 31 March 2015. This primarily relates to unspent income, to be deferred to 2015-16. This treatment has been agreed with the sponsor division.

2015-16 grant-in-aid is expected to be broadly consistent with the 2014-15 budget.

Statement of financial position

Current asset balances increased by £0.061 million compared to the prior year. The largest movements are in respect of:

- greater prepayments and accrued income; and
- increased cash balances.

Accrued income increased due to the timing of invoicing the Technology Strategy Board in respect of work carried out by the Glasgow School of Art. Prepayments also increased compared to 2013-14, reflecting timing differences in respect of rental payments. Cash increased as a result of the depreciation-adjusted surplus for the year.

Deferred income to be recognised in 2014-15 is £0.175 million, an increase on the prior year of £0.021 million. A dilapidation provision of £0.043 million is included in the statement of financial position, as noted on page seven.

	Actual 2014-15 £'000	Actual 2013-14 £'000	Variance £'000
Fixed assets	26	38	(12)
Trade and receivables	133	93	40
Cash and cash equivalents	184	163	21
Total assets	343	294	49
Trade payables	(320)	(325)	5
Provisions	(43)	-	(43)
Total liabilities	(363)	(325)	(38)
Reserves	(20)	(31)	11

Source: draft financial statements

Financial plans 2015-16

A+DS receives grant-in-aid from the Scottish 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, this is now transacted through PAD. The 2015-16 grant budget is shown below, with 2014-15 comparatives:

	Actual 2014-15 £'000	Budget 2014-15 £'000	Budget 2015-16 £'000
Core grant-in-aid	1,415	1,365	1,365
Schools programme	173	175	175
Health programme	149	149	140
Total grant-in-aid funding	1,737	1,689	1,680

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

The majority of A+DS's expenditure relates to staff costs (2014-15 £1.175 million), leaving approximately £0.19 million of non ring-fenced funding available for other expenditure in respect of 2015-16. 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.

The 2015-16 budget for A+DS includes £0.159 million other income, of which £0.094 million relates to ring-fenced funding for the Stalled Spaces programme.

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 on the regularity of transactions reflected in those financial statements.

The financial statements, including the governance statement and strategic report were made available on a timely basis and were accompanied by high quality working papers.

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 2015, and of A+DS's surplus for the year then ended. We have also 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 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 internal audit 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.

Financial statements preparation

- High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 26 June 2015. This included the strategic report, directors' report, remuneration report and governance statement.
- As and when needed during the year, we have discussed developments and accounting matters with management, to support in ensuring that disclosure within the financial statements is consistent with the requirements of the FReM. We provided feedback to management on the content of the financial statements, annual report and governance statement and we are pleased to report that these were 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, as reported in appendix one.

The significant areas of risk identified in our audit strategy were in respect of:

- management override of controls; and
 - revenue recognition fraud risk;
- and other focus areas of:
- accounting for expenditure; and
 - trade and other payables.

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit committee may understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override and we do not have findings to bring to your attention in relation to this matter; no control overrides were identified.

Significant risks	Our response	Audit findings
<p>Revenue recognition fraud risk</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is significant.</p> <p>Whilst the income stream is relatively simple, we assessed that the fraud risk from income recognition is a significant risk, in line with Professional Standards.</p>	<p>In respect of grant-in-aid income we agreed the full amount to the grant letter, without exceptions.</p> <p>For the £0.254 million other income, £0.162 million was agreed to the prior year deferred income balance. For the remainder, any items over £0.03 million were agreed to a grant letter or other supporting documentation; confirming that the income is appropriately recognised in 2014-15.</p>	<p>We are satisfied that income is appropriately stated in the financial statements.</p>
<p>Accounting for expenditure</p> <p>As other expenditure comprises a number of categories, including project spend which may span financial years, there are inherent risks over its correct disclosure and that of any related creditor balances.</p>	<p>We tested the design, implementation and operating effectiveness controls in respect of purchase in bank reconciliations, monthly management accounts, journal postings and purchase invoice authorisation.</p> <p>We performed a predictive analytical review, comparing current year expenditure by category to 2013-14, corroborating differences to third party supporting documentation where appropriate.</p> <p>We performed detailed testing over expenditure, using our 'MUS' sampling tool. The sampled items were agreed to third party documentation.</p> <p>We performed cut-off testing to verify items were appropriately recognised in 2014-15.</p>	<p>We are satisfied that expenditure is appropriately stated in the financial statements.</p> <p>A supplier was paid erroneously in 2014-15, due to the similarity of supplier name with the intended supplier. We confirmed the funds were recovered from the incorrectly-paid supplier post year end. Management had brought this error to our attention at the start of the audit and the transaction was correctly treated at year end. The mistake occurred due to the purchase order being set up for the incorrect supplier and a generic supplier system print used for checking, prior to the paper invoice being received. The purchase order and assumed-correct system print were authorised appropriately.</p>

Recommendation one

Significant risks	Our response	Audit findings
<p>Trade and other payables</p> <p>Due to the project-based nature of expenditure, there is a risk that the accruals disclosed as at 31 March are over-stated and do not reflect work undertaken in the year.</p>	<p>Audit work in respect of expenditure, which is related to trade and other payables, is detailed on page 11.</p> <p>In addition, we performed a substantive analytical procedure, comparing the actual trade payables to expected trade payables by reference to expenditure movements. We conducted testing over a sample of accruals, agreeing accrual to third party documentation.</p> <p>A post year end search for unrecorded liabilities was performed and a sample of post year end expenditure was agreed to third party evidence, confirming it was appropriately recognised at the year end. No exceptions were identified.</p>	<p>We are satisfied that trade and other payables is appropriately stated in the financial statements.</p>

There have been no changes to accounting policies.

The financial statements have been appropriately prepared on a going concern basis, having due consideration of the agreement of grant-in-aid in respect of 2015-16.

Accounting framework and application of accounting policies		
Area	Summary observations	Audit findings
Accounting policies	<ul style="list-style-type: none"> There have been no changes to adopted accounting policies in the year. 	We are satisfied that accounting policies and critical estimates adopted in the preparation of the financial statements remain appropriate. We have not identified indications of management bias.
Financial reporting framework	<ul style="list-style-type: none"> A+DS prepares financial statements in accordance with the principles of the Government's Financial Reporting Manual 2014-15 ("FReM"). There have been no changes to the financial reporting framework in the year, other than those required under the first-time adoption of updated consolidation standards which does not impact on A+DS. Minor changes were also made to the requirement for disclosure of compensation payments within the remuneration report, however these have had no impact for A+DS. 	We are satisfied that the accounting policies adopted remain appropriate to 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. Funding for the period from 2015-16 is agreed with the Scottish Government and the 2015-16 budget assumes a surplus of £0.01 million. A+DS held cash balances of £0.184 million as at 31 March 2015, with net current assets of £0.023 million. Management controls expenditure robustly and is continuing to reduce expenditure in order to operate within the budgeted funding. In view of the forecast for 2015-16 and in view of the continued support from the Scottish Government, we concur with the going concern assumption. 	We concur with management's view that the going concern assumption remains appropriate.

The annual report and remuneration report were prepared on a consistent basis to the prior year and remain appropriate.

Area	Summary observations	Audit findings
Annual report, including the strategic and directors' reports	<p>The financial statements form part of the annual report of A+DS for the year ended 31 March 2015. We are required to consider the strategic and directors' reports, and provide our opinion on the consistency of it with the financial statements.</p>	<p>We are satisfied that the information contained within the strategic and directors' report is consistent with the financial statements.</p>
Remuneration report	<p>The remuneration report was included within the draft financial statements and supported by good quality information and working papers.</p> <p>There was a change in the composition of the board in that Branka Dimitrijevic and Martin Mackay were not reappointed at the end of 2013-14 and were replaced by Graham Hill and Sue Evans as of 1 April 2014.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements.</p> <p>Changes in board membership have been appropriately disclosed.</p>

Governance and narrative reporting

Our overall perspective on narrative reporting, including the annual governance statement

Update on controls findings from our audit

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Our testing of the design and operation of financial controls over significant risk points identified no issues.

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

Area	Summary observations	Audit findings
Annual governance statement and governance arrangements	<p>The statement for 2014-15 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the governance framework, operated internal controls, the internal audit tender conducted during the year, internal financial controls and risk management arrangements and analyses the efficiency and 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 committee. 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 though our overall assessment of A+DS's risk and control environment.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for A+DS and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.</p>
Internal controls	<p>Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. 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.</p> <p>The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.</p>	<p>Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively.</p>
Prevention and detection of fraud	<p>Procedures and controls related to fraud are designed and implemented effectively. Expenditure is reviewed and authorised by appropriate finance personnel and senior management. In 2014-15 no significant or other fraud or irregularity was identified by management or through the course of our external audit work.</p>	<p>We consider that A+DS has appropriate arrangements to prevent and detect fraud.</p>

An internal audit tender was conducted in 2014-15, and no internal audits were performed during the year.

Area	Summary observations	Audit findings
<p>Arrangements for maintaining standards of conduct and the prevention and detection of corruption</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 are being revised to ensure they meet best practice requirements in respect of applicable laws and regulations. Where updates were made, an email was sent to staff to direct their attention to the new policy, ensuring visibility and awareness within the organisation. This process continues from 2013-14 and will be completed in 2015-16.</p>	<p>We consider that A+DS has appropriate arrangements to prevent and detect inappropriate conduct and corruption.</p>
<p>Internal audit</p>	<p>No internal audits were performed during 2014-15. A+DS conducted an internal audit tender in the year and Chiene and Tait was appointed for a three year period. A draft internal audit strategy document was provided in May 2015 which sets out three areas for review in 2015-16: risk management; project management; and contract management. We reviewed the draft audit strategy document and recommended the inclusion of financial controls within the internal audit plan.</p>	<p>We have concluded that the there was no effective internal audit service in the period.</p>

Performance management

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

Our work has identified that A+DS's Best Value and performance management arrangements are generally robust.

Area	Summary observations	Audit findings
<p>Performance management and best value</p>	<p>Scottish Government guidance for Accountable Officers on Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.</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 set by grade for proposing expenditure (e.g. raising a purchase order) and for separately authorising the same.</p> <p>A+DS demonstrates Best Value principles in its 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.</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. 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>	<p>We consider that A+DS has appropriate arrangements to effectively manage performance and best value.</p>

Area	Our response	Audit findings
<p>Local response to national studies</p>	<p>Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits.</p> <p>A+DS's finance team reviews Audit Scotland report outputs on a quarterly basis and anything relevant is brought to the attention of the Board. Given the size and activities of A+DS a number of the reports are not directly relevant.</p>	<p>We consider that A+DS has appropriate arrangements to effectively respond to national studies.</p>
<p>Financial capacity in public bodies</p>	<p>Through the process of feedback through Annual Audit Reports, current issues reports and sector meetings, Audit Scotland identified that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance.</p> <p>Audit Scotland has requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme.</p> <p>We have completed a return to Audit Scotland in respect of our findings. Our review in response to the request for data collection identified that there is appropriate financial capacity to ensure effective management, given the size and complexity of the organisation. There is no formal long term budget plan for the organisation which reflects the short term nature of grant-in-aid allocations.</p>	<p>We consider that the A+DS has appropriate financial capacity to effectively manage the organisation.</p>

Appendices

There were no changes to the core financial statement and there are no unadjusted audit differences

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	<p>There were no audit adjustments required to the draft financial statements which impacted on the net assets or net operating cost for the year.</p> <p>A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.</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.</p>	-
Confirmation of Independence Letter issued 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 two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	<p>There were no non-audit services.</p>	Appendix two
Draft management representation letter Proposed draft of letter to be issued by A+DS to KPMG	<p>There are no changes to the standard representations required for our audit from last year.</p>	-
Materiality The materiality applied to audit testing	<p>We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.</p> <p>We assessed our level of materiality based on our knowledge and understanding of A+DS's risk profile and, therefore, financial statements. Materiality was set at £39,589 which is approximately 2% of total expenditure in 2014-15, and is lower than the materiality identified in our audit strategy (£42,000) as a result of actual expenditure being lower than that budgeted.</p> <p>We design our procedures to detect errors at a lower level of precision, i.e. £29,691.</p> <p>We report identified errors greater than £1,979 to the audit committee.</p>	

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with A+DS.

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 and its related entities 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 board of directors.

Confirmation of audit independence

We confirm that as of 8 October 2015, in our professional judgement, 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 letter 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 and risk	Recommendation(s)	Agreed management actions
<p>1 Supplier payment error</p> <p>A supplier was paid erroneously in 2014-15, due to the similarity of supplier name with the intended supplier. Management had brought this error to our attention at the start of the audit and the transaction was correctly treated at year end. The mistake occurred due to the purchase order (PO) being set up in the incorrect supplier name and a generic supplier system print used for checking details, prior to the paper invoice being received. The erroneous purchase order and system print were authorised appropriately.</p> <p>As was the case in 2014-15, using a generic system print, rather than an actual invoice for checking, gives rise to a risk that purchase order errors are not identified and consequent inaccurate payment. We acknowledge that the cash was recovered and that the similarity of supplier name contributed to the error.</p>	<p>In line with A+DS policies, invoices should be matched to purchase orders in advance of authorising supplier payments. Given the risk of errors when using e-mailed reports, we recommend that only invoices are accepted for this matching.</p>	<p>Grade three</p> <p>Management response: Authorised PO requests are processed by the corporate services team and checked by appropriate staff prior to the PO being sent to the supplier. Invoices are electronically matched to PO's. The original hardcopy invoice is checked against the proposed payment run prior to the payment by BACS. These procedures have been operating very successfully over the last five years. This one exception was identified by the corporate services team and occurred where a supplier had a very similar name to another supplier. Staff will be reminded to ensure all PO's are double checked before being sent to supplier and original supplier invoices are processed and matched to PO.</p> <p>Responsible officer and implementation date: Head of Corporate Services, August 2015</p>



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