

Architecture and Design Scotland

2019/20 Annual Audit Report



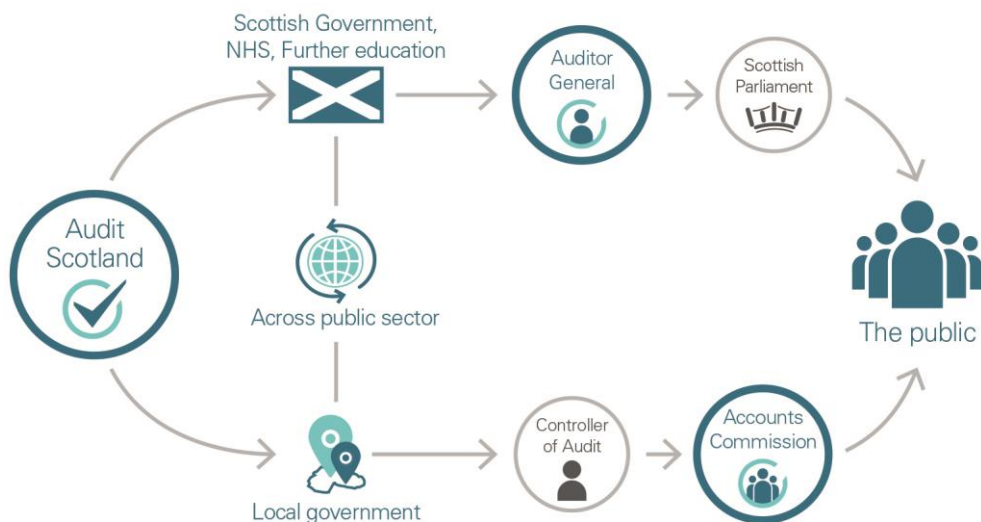
Prepared for Architecture and Design Scotland and the Auditor General for Scotland

September 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2019/20 annual report and accounts

- 1** The financial statements of Architecture and Design Scotland (A&DS) give a true and fair view and were properly prepared.
- 2** The Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.
- 3** A material adjustment was required due to the incorrect treatment of prepayment and deferred income balances. The adjustment decreased net expenditure by £16,314.
- 4** A&DS should put in place processes to ensure that current and non-current assets are correctly identified and classified.
- 5** There was no impact on the accounting and auditing timetable for the 2019/20 financial statements as a result of COVID-19.

Financial sustainability

- 6** A&DS reported an effective surplus of £109,076 in 2019/20 against the targeted breakeven position. As a result, the general reserves balance increased from £143,224 at the start of the financial year to £252,300 as at 31 March 2020.
- 7** A&DS' five-year financial forecast identifies an increasing budget deficit which will utilise general reserves by 2022/23. To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.

Introduction

1. This report summarises the findings from our 2019/20 audit of Architecture and Design Scotland (A&DS).

2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 3 March 2020 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the A&DS annual report and accounts
- consideration of the financial sustainability and Governance Statement.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, A&DS has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have a significant impact into the financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Adding value through the audit

4. We add value to the A&DS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on the appropriateness of the disclosures in the governance statement and financial sustainability.

5. In so doing, we aim to help A&DS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. A&DS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the Accounts Direction from the Scottish Ministers. A&DS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of the disclosures in the governance statement, financial sustainability of the body and the services that it delivers over the medium to longer term. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. The [Code of Audit Practice 2016 \(the Code\)](#) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the annual governance statement and the financial sustainability of the body and its services. As highlighted in our 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

10. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. Where applicable, it also includes outstanding actions from last year and progress against these.

Auditor Independence

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £8,240 as set out in our Annual Audit Plan, remains unchanged.

13. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both A&DS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

A&DS's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements.

A material adjustment was required due to the incorrect treatment of prepayment and deferred income balances. The adjustment decreased net expenditure by £16,314.

A&DS should put in place processes to ensure that current and non-current assets are correctly identified and classified.

There was no impact on the accounting and auditing timetable for the 2019/20 financial statements as a result of COVID-19.

Our audit opinions on the annual accounts are unmodified

16. The annual accounts are the principal means of accounting for the stewardship of the A&DS' resources and its performance in the use of those resources.

17. The annual accounts for the year ended 31 March 2020 were approved by the Board on 10 September 2020.

18. As reported in the independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on the regularity of expenditure and income
- the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual accounts were signed off in line with the agreed timetable

19. The unaudited annual report and accounts were received in line with our agreed audit timetable on 22 June 2020. There has been limited impact of COVID-19 on the audit process. The physical limitations on access to records and systems did not delay the audit and A&DS staff were supported in homeworking during the period of the outbreak.

20. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Overall materiality is £19,000

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that no changes were required to our planned levels.

Exhibit 1 Materiality values

Overall materiality	£19,000
Performance materiality	£11,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

24. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have no significant findings to report around the qualitative aspects. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Income and expenditure recognised in the incorrect period</p> <p>Our audit testing identified that management had recognised expenditure for two items in the 2019/20 financial statements that related to future periods, and therefore should have been accounted for as prepayments.</p> <p>Testing also identified one item of income recognised in 2019/20 that should have been deferred to a future period.</p> <p>The errors resulted in expenditure being overstated by £21,314 and income being overstated by £5,000. These had the net effect of decreasing net expenditure by £16,314.</p> <p>In accordance with ISA 260 requirements, this has been highlighted as a material adjustment to the financial statements.</p>	<p>Management have processed a correcting adjustment within the audited financial statements.</p> <p>We highlighted a risk relating to the recognition of income and expenditure in the correct period within our Annual Audit Plan as a result of prior year issues, and therefore performed additional testing in this area.</p> <p>Two of the errors noted related to the Venice Biennale, which was postponed as a result of the COVID-19 pandemic and added additional complexity in 2019/20.</p> <p>We noted that management have made improvements to the process for allocating income and expenditure to the correct period in response to the issues noted in 2018/19.</p>

Other findings

26. Our audit work over the financial statements also identified an error resulting in prepayment balances being incorrectly classified as current (expected to be utilised in the next financial year) instead of non-current (expected to be utilised in 2022/23 or later). To correct for this, £7,957 of current prepayments were reclassified as non-current in the audited accounts.



Recommendation 1

A&DS should put in place processes to ensure that current and non-current assets are correctly identified and classified.

Good progress was made on prior year recommendations

27. We have followed up actions previously reported and assessed progress. All agreed actions in 2018/19 have been actioned.

- The process for allocating income and expenditure to the correct financial period has improved. As noted in Exhibit 1, the material issues highlighted this year were largely due to circumstances arising from COVID-19.
- A five-year financial forecast is now presented to the Audit Committee.
- The format and content of the risk register has been improved.

Part 2

Financial sustainability and governance statement



Main judgements

A&DS reported an effective surplus of £109,076 in 2019/20 against the targeted breakeven position. As a result, the general reserves balance increased from £143,224 at the start of the financial year to £252,300 as at 31 March 2020.

A&DS' five-year financial forecast identifies an increasing budget deficit which will utilise general reserves by the end of 2022/23. To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2019/20

28. The main financial objective for A&DS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. A&DS reported an effective surplus of £109,076 in the 2019/20 audited accounts. This had an impact on the reserves balance, resulting in a closing balance of £252,300 as at 31 March 2020.

29. Additional funding received from the Scottish Government and from other public sector bodies for specific projects was £46,542 in 2019/20.

Short term financial planning

30. A&DS is funded directly by grant-in-aid received from the Scottish Government and also through project funding from other public sector bodies. The A&DS Board approved the 2020/21 draft budget in February 2020 with a resource allocation of £2.003 million a decrease of £0.012 million on 2019/20.

Medium to long term financial planning

31. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

32. A&DS prepares a rolling five-year financial forecast that is presented to the Management Team and to the Audit Committee. The most recent forecast covers the period 2020/21 to 2024/24 and highlights that A&DS' key financial challenge is that largely fixed costs are expected to rise with inflation while core Grant in Aid income is assumed to remain flat in the future. The financial forecast projects an increasing budget deficit year on year, reaching £0.229 million in 2024/25.

33. Based on the current projections A&DS will utilise its reserves by the end of 2022/23. To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.

34. Management continue to progress drafting a 10-year corporate strategic plan to follow on from the current long-term plan which covers the period to 2021.



Recommendation 2

To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.

Impact of COVID-19

35. Occurring late in the 2019/20 financial year, the COVID-19 pandemic has had limited impact on A&DS' financial statements. A&DS staff have been largely able work from home and deliver services remotely, though some projects (e.g. the Venice Biennale) have been postponed.

36. In the longer term the economic uncertainty created by the pandemic makes financial planning more challenging, and further emphasises the need for management to address the projected deficit.

Governance Statement and Performance Report

37. In our 2018/19 annual audit report we recognised had made a number of improvements but highlighted that there was still scope to improve the quality of the content in both the governance statement and performance report.

38. Our review of the governance statement and performance report within the 2019/20 annual report and accounts concluded that both are consistent with the financial statements and properly prepared in accordance with the accounts direction.

National performance audit reports

39. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 highlights a number of the reports published in 2019/20.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	Our audit work identified £7,975 of prepayment balances incorrectly classified as current instead of non-current.	A&DS should put in place processes to ensure that current and non-current assets are correctly identified and classified.	Following discussions with Audit Scotland we will ensure we have procedures in place to correctly identify and classify current and non-current assets. Responsible officer – Lynne Lineen Agreed date – 31 March 2021
2	Based on the projections within its five-year financial forecast, A&DS will incur a deficit each year in the period 2020/21 to 2024/25, and will utilise its reserves by the end of 2022/23.	To maintain A&DS' long term financial sustainability, management should review how they will address the projected deficit.	We recognise the challenge of ensuring future financial sustainability for A&DS. We have a very good relationship with our Sponsor and ensure they are regularly updated on all aspects of our business including our financial sustainability. We acknowledge constraints when producing five-year forecasts as we have our grant funding confirmed for only one year ahead. In addition, in relation to salary forecasting we align to Scottish Government and they currently are only agreeing one year pay deals. These factors which are largely out of our direct control severely constrain us in forecasting. However we will continue to produce five-year financial forecasts making reasonable assumptions based on the knowledge we have and ensure our relationship with our Sponsor is strong. Responsible officer – Lynne Lineen Agreed date – 31 March 2021

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Errors were noted prepayments that impacted expenditure, these were corrected within the audited accounts.</p> <p>None of the errors noted were due to management overriding controls.</p>
<p>2 Risk of material misstatement caused by fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240. The risk of fraud over expenditure applies due to the variety and extent of expenditure made by Architecture and Design Scotland in delivering services.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on whether expenditure is processed in the correct accounting year.</p>	<p>Errors were noted prepayments that impacted expenditure, these were corrected within the audited accounts.</p> <p>There was no indication the error was fraudulent.</p>
<p>3 Risk of material misstatement caused by fraud over income</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be materially misstated in the financial statements. While the majority of A&DS's income is in the form of grant-in-aid from the Scottish Government, A&DS are also projected to receive</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on whether income is processed in the correct accounting year.</p>	<p>Errors were noted deferred income that impacted income, these were corrected within the audited accounts.</p> <p>There was no indication the error was fraudulent.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>additional funding to run specific projects during the year. This additional funding is material to the accounts of A&DS and therefore there is an inherent risk of fraudulent or erroneous reporting of income to achieve a desired financial position.</p>		
<p>4 2018/19 audit adjustments</p> <p>In 2018/19, our audit work identified a material error in relation to the early recognition of a prepayment and also a number of other errors relating to income and expenditure being recognised in the incorrect financial year.</p> <p>Management corrected these errors in the 2018/19 audited financial statements, however their occurrence increases the risk of similar misstatements in 2019/20.</p>	<p>Detailed testing of the trade receivable and trade balances stated within the financial statements, focusing on the areas of greatest risk</p> <p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk</p> <p>Discussions with management to obtain assurance over the reviews and scrutinising of processes</p>	<p>Management put in place additional processes to ensure income and expenditure were recorded in the correct period in 2019/20.</p> <p>While we noted three errors in the 2019/20 accounts, two of these were specifically related to accounting complications arising from the COVID-19 pandemic (specifically the late postponement of the Venice Biennale). The remaining error was not material and we are satisfied that management took sufficient action in response to the issues we raised in 2018/19.</p> <p>All 2019/20 errors were corrected in the audited accounts.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>5 Financial sustainability</p> <p>Grant-in-aid funding from the Scottish Government has remained largely static in cash terms over the past 9 years.</p> <p>A&DS faces a number of pressures (e.g. pay inflation) that are increasing costs.</p> <p>A&DS may have to make savings in the future to achieve financial balance and this could impact on its ability to provide services.</p>	<p>Review of A&DS scenario planning papers presented to the Board.</p>	<p>From consideration of the 2020/21 budget and five-year financial forecast management have identified that A&DS will incurred a financial deficit over the next five years.</p> <p>To maintain A&DS' long term financial sustainability, management should consider how they will respond to the projected deficit (Recommendation 2).</p>
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Appendix 3

Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

Architecture and Design Scotland

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