

Architecture and Design Scotland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Architecture and Design Scotland

June 2024

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Introduction

Summary of planned audit work

1. Stephanie Harold has been appointed by the Auditor General for Scotland as external auditor of Architecture and Design Scotland (A&DS) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- concluding on the financial sustainability of A&DS and a review of the Governance Statement
- provision of an Independent Auditor's Report expressing opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and Audited Body

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and A&DS. Key responsibilities are summarised below.

Auditor responsibilities

4. The appointed auditor's responsibilities are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at A&DS. In doing this, we aim to support improvement and accountability.

A&DS's responsibilities

6. A&DS is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view.

It is also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. A&DS has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable it to deliver its objectives.

Adding Value

8. We aim to add value by tailoring audit work to the circumstances of A&DS and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit Committee; and by recommending and encouraging good practice. In so doing, we will help A&DS promote improved standards of governance, better management and decision-making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating A&DS's stewardship of resources and its performance in the use of those resources.

10. The appointed auditor is required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. The audit team will focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for A&DS are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for A&DS

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of A&DS's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23. We will revisit our materiality on receipt of the 2023/24 unaudited accounts.	£44,000

Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality. £30,800

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £2,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of A&DS, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is the risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance over this risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
		<p>entries and other adjustments.</p> <ul style="list-style-type: none"> • Detailed testing of journals with a focus on significant risk areas, including year-end and post-closing entries (including for income and expenditure), where we consider the risk of management override of controls to be the greatest. • Evaluate significant transactions outside the normal course of business.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2023/24 as the main source of funding is from Scottish Government grants. This funding is agreed to funding confirmations and therefore the opportunity and incentive of fraud in revenue recognition is considered to be low.

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this presumed risk in 2023/24 because our assessment of the constituent expenditure streams, including the incentive and opportunity for fraud, is that the risk of material misstatement due to fraud is low.

19. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other area of audit focus

20. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

21. The area of specific audit focus is:

- **Accounting for requirements of IFRS 16:** The implementation of IFRS 16 was mandatory for A&DS (as a central government body) in 2022/23. This was an area of audit focus for the 2022/23 audit. As noted in our 2022/23 Annual Audit Report, it was identified that A&DS had not accounted for the requirements of IFRS 16 properly and multiple amendments were required. All required amendments were made to the 2022/23 annual accounts, and we are therefore satisfied there is no risk around the accuracy of the opening balances in 2023/24. However, due to the nature of the issues identified as part of the 2022/23 audit and the complexities around accounting for leases, there is a risk of material misstatement around the accuracy of the accounting treatment of the lease transactions in 2023/24.

Regularity

22. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

23. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

24. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

25. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by A&DS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how A&DS demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

26. In line with the Code of Audit Practice (including supplementary guidance) and from review of A&DS's most recent audited annual report and accounts, we have taken the less complex bodies approach to wider audit dimensions. This is due to the nature of A&DS's business and the operating income and expenditure streams. This allows us to restrict our wider scope work to financial sustainability and the governance arrangements in place to support disclosures in the Governance Statement.

Wider scope risks

27. We have identified a risk in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risk, management's sources of assurance for the risk, and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>A&DS has identified a year-end deficit in its 2024/25 budget, with further deficits forecast from 2025/26 onwards, requiring significant savings to mitigate these. A&DS faces inflationary and pay related pressures over the short to medium term, with similar challenges across the public sector.</p> <p>A&DS continues to engage with its sponsor department on these challenges and is exploring ways to address them, including its review of office accommodation needs and provision of online events when appropriate.</p> <p>With these financial pressures, A&DS faces significant challenges in maintaining the delivery of services in a financially sustainable way.</p>	<p>It is the case that we are forecasting budget deficits in each of the next three financial years and that we are working closely with our sponsor team at Scottish Government to manage these.</p> <p>We are confident the deficit for 2024/25 (£20k) can be managed through efficiencies and other savings in year to achieve a break-even position.</p> <p>However, in 2025/26 and beyond, the prospect of being able to manage deficits in excess of £100k appears far more challenging within current constraints. We will continue to identify savings to reduce the deficit budget but will rely on changes elsewhere to achieve a break-even position. The sponsor team is aware of the situation, and we will continue to seek advice from them as to potential options available.</p> <p>In recognition of these financial pressures, this has been moved to be our number one risk on our strategic risk register.</p>	<ul style="list-style-type: none"> • Review of A&DS's annual budget setting and monitoring arrangements. • Review of A&DS's medium to longer term financial planning. • On-going review of A&DS's financial position and delivery of savings.

Source: Audit Scotland

28. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years.

Duty of Best Value

29. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within A&DS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

31. We will provide:

- an Independent Auditor's Report to A&DS, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- A&DS and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

32. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. Central Government bodies have a statutory deadline of 31 December 2024 for laying the accounts, which is also the deadline for bodies under the Companies Act 2006. We aim to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2024	26 June 2024
Independent Auditor's Report	11 December 2024	11 December 2024
Annual Audit Report	11 December 2024	11 December 2024

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

34. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

35. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

2023/24 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	1 October 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	1 October 2024
Latest date for final clearance meeting with the Corporate Infrastructure Manager	25 November 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	w/c 25 November 2024
Agreement of audited and unsigned annual report and accounts	w/c 25 November 2024
Issue of Annual Audit Report to those charged with governance	w/c 25 November 2024
Signed Independent Auditor's Report	11 December 2024

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of A&DS and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £11,920 as set out in [Exhibit 6](#).

Exhibit 6
2023/24 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	24,760
Pooled costs	260
Sectoral Cap Adjustment	-13,100
Total 2023/24 fee	11,920

Source: Audit Scotland

37. In setting the fee for 2023/24, we have assumed that A&DS has effective governance arrangements and will prepare a comprehensive and accurate annual report and set of accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of A&DS to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

39. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

40. As the appointed auditor for A&DS, I am independent of A&DS in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

42. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of A&DS.

Audit Quality

43. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

44. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

45. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

46. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

47. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Architecture and Design Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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