

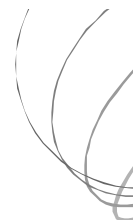
# VisitScotland

## Report on the 2005-06 Audit

19 December 2006



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# Executive Summary

## Introduction

We have audited the 2005-06 financial statements of VisitScotland and looked at aspects of governance and performance management. Prior to 2005-06, there were 14 Area Tourist Boards (ATBs) which were wound up on 31 March 2005 and the staff, assets and liabilities were transferred to two Network Tourist Boards (NTBs) with effect from 1 April 2005. Financial statements are prepared for the NTBs, Visit Scotland and the Visit Scotland Group. This report sets out our key findings from the audit of VisitScotland and the Group Accounts. The NTBs accounts will be the subject of separate audit reports.

## Financial Statements

We have given an unqualified opinion on the financial statements of Visit Scotland and the Group for 2005-06. The Group income and expenditure account for the year records gross expenditure of £74.8 million and income of £73.3 million resulting in a deficit for the year of £1.5 million.

At the planning stage we identified eleven main audit risks, which informed our audit procedures. We can conclude from the results of our work on these risks that the majority are being satisfactorily managed by VisitScotland. The main issue arising from our audit was the difficulty in the preparation of the Accounts due to the complexity of the transfer of the ATBs and the creation of the NTBs.

## Governance

Weaknesses in the main financial systems and controls were identified in the first six months following integration. Significant progress has been made in addressing the weaknesses which are fully disclosed in the Statement on Internal Control. We found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

## Performance Management

During 2005-06 we completed a baseline analysis of VisitScotland's management arrangements for achieving Best Value. We found that VisitScotland's procedures were generally under development and that progress towards achieving Best Value was being made.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director, 19 December 2006



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of VisitScotland. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Audit Committee on 22 June 2006. The plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to VisitScotland. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers of VisitScotland during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Outcome on Risks Identified in the Audit Risk Analysis and Plan

5. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. At the planning stage we identified eleven main audit risks which informed our audit procedures:
  - Internal Control Framework
  - Corporate Governance arrangements
  - Performance Management
  - Risk Management
  - Partnership Working



- Accounts Preparation
  - New IT Systems
  - VisitScotland.com
  - European Funding
  - Best Value
  - Information & Sales Review
6. As part of the approach to understanding the business, we obtained explanations on how Visit Scotland would manage these risks and then adapted our planned work accordingly. The outcome against planned activity for each of the above risks is summarised at Appendix A. We can conclude from the results of our work on these risks that the majority are being satisfactorily managed by VisitScotland. A number of these risk areas are described in greater detail in the body of this report.

## Prior Period Follow Up

7. One issue was identified in our Report on the Audit for the year to 31 March 2005 and this related to a five week delay in the submission of the draft accounts for audit. We recommended that:
- The accounts preparation timetable and its impact on the audit schedule for 2005-06 should be considered at an early date.
  - A realistic accounts preparation plan, which takes account of the complexities arising from the integrated network, should be established. This may require the previous timetable to be revisited and extended and/ or delayed to ensure that a draft account together with a complete set of supporting schedules are available for the start of our audit.
8. We are satisfied that draft accounts were submitted in accordance with the agreed timetable, however further issues relating to the accounts preparation procedure are considered later in our Report.

## Management Action

9. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



# Financial Statements

## Our Responsibilities

10. We audit the financial statements of the Scottish Tourist Board (trading as VisitScotland) Group and give an opinion on whether:

- they give a true and fair view, in accordance with the Development of Tourism Act 1969 and directions made thereunder by the Scottish Ministers, of the state of affairs of the STB and the Group, as at 31 March 2006 and the deficit of the STB and the deficit of the Group, recognised gains and losses of the STB and the Group and cash flows of the Group for the year then ended;
- they and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Development of Tourism Act 1969 and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

11. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are not inconsistent with the information emerging from our normal audit work.

## Overall Conclusion

12. We have given an unqualified opinion on the financial statements of VisitScotland and the Group, for 2005-06. We are able to conclude that the financial statements of the Group, give a true and fair view of the financial position for the year ended 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

13. Following discussion with the interim Financial Controller, a date of 4 September 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the





statutory deadline. Accounts were duly submitted on the agreed date however, due to the complexities associated with the integrated network, these accounts were not submitted in the required format and the completion timetable was delayed.

14. Visit Scotland has invested in new financial systems to help it manage the increased complexity of the networks and the group. We have observed that the substantive staff and skills in the finance function have remained relatively static during this period of significant change. As a result, VisitScotland has been dependent on temporary staff to support both the day to day business and the production of the statutory accounts. We would recommend that Visit Scotland conduct a further review of the staffing, skills and training needs of the finance function and invest in additional resources as may be determined.

#### **Action Point 1**

## **Financial Performance**

15. The VisitScotland income and expenditure account for the year records gross expenditure of £57.618 million and income of £57.547 million resulting in a deficit for the year of £0.071 million.
16. The Group income and expenditure account for the year records gross expenditure of £74.829 million and income of £73.294 million resulting in a deficit for the year of £1,535 million. The group account includes the results of NTB1, NTB2 and three external subsidiary companies (Tourco Ltd, Tourist Board Training Ltd and West Highland and Lowland Holidays Ltd) together with the results of the joint venture company, eTourism. The Group deficit arises partly from depreciation on assets acquired from the Area Tourist Boards and provision for a rent free period for the new main office in Edinburgh. The deficit also includes the Group share of the operating loss and interest in eTourism.

## **Statement on Internal Control**

17. The Statement on Internal Control was signed by the Chief Executive on 11 December 2006. This Statement sets out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
18. The Statement includes a number of disclosures relating to weaknesses in internal control systems – these weaknesses, which were identified by internal audit in the first six months following integration; relate to accounts payable, payroll and budgetary control systems. Subsequent follow-up reviews, which included testing at the end of the period under review, confirmed that significant progress has been made in addressing the weaknesses. A plan to address the remaining weaknesses and ensure continuous improvement of the system is in place.



19. Weaknesses in bank reconciliation procedures are also disclosed in the Statement. We are content however that the year end cash position is correct. Further details are provided at paragraphs 29 and 30.
20. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are consistent with the information emerging from our normal audit work.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

21. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260. As part of the audit process, we identified a number of misstatements that were subsequently adjusted in the final account. I wrote to the Chief Executive on 7 December 2006, highlighting that the main adjustments were as follows:
  - Removal of duplicate entries in respect of Oban TIC which was included in the accounts of both NTB2 and West Highland and Lowland Holidays – this adjustment removed £0.640 million from the net book value of Group assets;
  - Removal of £0.350 million overstatement in respect of VisitScotland prepayments;
  - Updating the Fixed Asset Register to correct errors in asset lives – this adjustment reduced the VisitScotland annual depreciation charge by £0.220 million;
22. Adjustments were also required to disaggregate the NTBs from the VisitScotland account, correct allocations between Visit Scotland and NTB cost centres, revise inter-company transactions and to comply with the requirements of Financial Reporting Standard (FRS) 17 in respect of NTB pension costs. In addition there were a small number of further adjustments which individually and cumulatively are not material to the financial statements and there were no significant judgements to be brought to the attention of the Chief Executive as the Accountable Officer.

## Issues Arising – Accounts Preparation

23. In line with normal practice, issues were discussed and resolved with staff during the course of the audit. The first draft account included financial statements for the Group however we did not receive separate financial statements in respect of the individual NTBs and VisitScotland at this time.

**Action Point 2**



# Governance

## Introduction

24. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of VisitScotland's corporate governance as it relates to:

- general governance arrangements;
- systems of internal control; and
- review of internal audit.

## Overall Conclusion

25. Weaknesses in the main financial systems and controls were identified in the first six months following integration. Significant progress has been made in addressing the weaknesses which are fully disclosed in the Statement on Internal Control. We found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

## General Governance Arrangements

26. Our 2004-05 audit included a review of VisitScotland's audit committee arrangements and procedures for preventing and detecting fraud and corruption. We followed up these reviews in the current year and confirmed that these arrangements are satisfactory. No frauds were identified by VisitScotland in 2005-06.

27. During 2005-06, we observed that the Audit Committee provided an effective level of challenge and scrutiny of VisitScotland's systems of control and governance arrangements.

28. We also considered VisitScotland's annual business cycle, including business plans, budgets and financial reporting and this was discussed with both the Director of Corporate Services and the Audit Committee Chairman. We observed that the timetable for the annual business cycle is sensitive and that the timing of Board meetings during the business cycle may lead to a risk that the Board is asked to approve decisions by management '*after the event*' with insufficient opportunity for Board involvement earlier in the business cycle.

**Action Point 3**



## Systems of Internal Control

### *Bank Reconciliation Procedures*

29. During our first interim audit visit we reviewed VisitScotland's banking arrangements and bank reconciliation procedures. In particular, we considered the impact of integration and the implementation of the new accounting system on the continued operation of effective internal controls. We were disappointed to note that full bank reconciliations were not prepared during 2005-06. We understand that the cashbook was reconciled to bank statements, but not the general ledger, on a regular basis.
30. This issue together with our recommendation to address the weakness identified was reported in our Interim Management Letter (issued in July 2006). Since then we have followed up the action taken and we were pleased to note that a full reconciliation between bank statements and ledger bank accounts took place as at 31 March 2006. This reconciliation process identified an imbalance of £28,000 however we are satisfied that the year end cash position is correct and the imbalance was due to a bookkeeping error.

### *Main Financial Systems*

31. Following initial reviews of payroll, budgetary and financial control and payments and creditors, internal audit reported that the key controls, in respect of these areas, were not operating effectively at the time of their visits. As a result, we were unable to place reliance on the controls operating in these areas and our audit work concentrated on detailed substantive testing of transactions. The findings from our sample testing have been reported to management - there are no significant points to highlight in this report.

### *Review of Income*

32. We carried out a review of the processes for collecting and recording retail income during July 2006. This review included sample testing of transactions generated by the Princes Street office, an assessment of the records maintained at Ocean Point and Princes Street and interviews with appropriate staff. We also reviewed the processes for recording funding received from local authorities through partnership agreements. A detailed draft report was issued to management in August 2006 – we raised a number of recommendations which require to be addressed.



### *IT Project Management*

33. During 2005-06, we carried out an overview of the arrangements in place to manage implementation of the replacement general ledger and spend management systems. A number of key documents were provided as evidence of the establishment of good project management procedures. The system was put into operation during August 2006 and we are not aware of any significant issues arising since implementation.

## **Review of Internal Audit**

34. VisitScotland recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system that has been established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year. Internal audit is provided by PricewaterhouseCoopers (PwC).
35. Our colleagues within Audit Scotland completed a review of internal audit work undertaken by PwC for VisitScotland and other audits, in accordance with International Auditing Standard 610, to assess the adequacy of the service in terms of quality of work, coverage, independence and effectiveness. This review concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures. On 14 March 2006 we sent a letter to the Chief Executive identifying those areas where we planned to place formal reliance on the work of PwC during 2005-06.
36. We conducted a review of the reports and supporting files produced by internal audit in respect of the areas on which we placed reliance during the financial year. Although we were unable to rely on the controls in place in respect of those areas identified at paragraph 26 above, we were able to rely on this work to the extent that we reduced the sample sizes required for substantive testing.
37. On 22 June 2006, PwC provided the Chief Executive with reasonable assurance on the adequacy and effectiveness of the system of internal control to meet control objectives agreed with management for each of the systems reviewed, with the exception of the financial controls in operation over accounts payable, budgetary control and payroll systems. In respect of those areas where the statement of assurance is qualified, adequate disclosure has been included in the Statement on Internal Control.



# Performance Management

## Introduction

38. This section covers our assessment of the way in which VisitScotland secures value for money in the use of its resources. This year we focussed on best value.

## Best Value

39. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost)
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
- to contribute to the achievement of sustainable development.

40. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, as Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, revised guidance was issued in May 2006.

41. During 2005-06 Audit Scotland carried out a baseline review to establish the arrangements in place across the central government and NHS sectors which support best value and continuous improvement, and to identify areas of good practice. The results of these reviews are currently being analysed and will be issued shortly. It should be emphasised that this exercise does not represent a best value audit across the public sector. Audit Scotland is considering what type of audit approach might be suitable for non statutory best value. The results from this review will inform that thinking.

42. As part of the work carried out with VisitScotland to contribute to this baseline review, we considered the organisation's arrangements for best value. Overall, we assessed these arrangements as being under development but indicating progress. Examples of good practice identified during the review include:



- VisitScotland has designed a scenario planning function that is based upon environmental scanning, economic modelling and scenario construction. Scenario planning is the capability of VisitScotland to perceive what is going on in the business environment, thinking of the consequences of what this means and taking action; and
- The Green Tourism Business Scheme is a VisitScotland accreditation scheme relating to good environmental practice. Designed specially for tourism businesses, the scheme is helping to reduce costs, improve efficiency and increase marketing potential, while also reducing the environmental impact of a business.

## National Studies

43. Reports published by the Auditor General for Scotland, which may be of interest to VisitScotland, are summarised at Appendix C.

### *Relocation of Scottish Executive Departments, Agencies and NDPBs*

44. The Central Government team within the Performance Reporting Group of Audit Scotland has recently published on behalf of the Auditor General a study entitled "Relocation of Scottish Executive Departments, Agencies and NDPBs". The study analysed the benefits and efficiencies of relocating government departments to new areas of Scotland.
45. Key findings in the report include that:
- there is some limited evidence of efficiency gains from relocation, such as lower staff turnover and reductions in sick leave in specific relocations, but wider benefits have not so far been measured
  - the estimated cost per job for the relocation of individual organisations range between a saving of £33,000 per job and a cost of £45,000 per job
  - the Executive does not have explicit targets for relocation and it has not identified areas of the country expected to benefit from its policy
  - In some cases, new or revised criteria to identify potential sites for relocation were introduced late in the review process.
46. VisitScotland was one of the organisations surveyed and details were provided in Appendix 3: Case Study Narratives. The key points made were that; the organisation's existing accommodation in Edinburgh was to be sold on by the landlord for residential use; and the impact on the organisation's ability to deliver its services was the key factor in it not relocating away from Edinburgh.

# Appendix A: Outcome on Risks Identified in the Audit Risk Analysis and Plan

Risk	Management assurances	Planned audit action	Outcome
<p><b>1. Internal Control Framework</b></p> <p>Following the outcome of a restructuring process which created a new integrated tourism network, the 14 Area Tourist Boards (ATBs) were wound up and the staff, assets and liabilities were transferred to 2 Network Tourist Boards (NTBs) with effect from 1/4/05.</p> <p>The 2 NTBs, which are operationally part of VisitScotland, provide the legal basis of the tourism network in Scotland (TNS). The network operates from 16 centres throughout the country, supported by local Tourist Information Centres (TICs).</p> <p>The complex nature of the integrated body results in a risk that the internal control framework is not operating effectively.</p>	<p>The annual internal audit plan includes the following areas for review:</p> <ul style="list-style-type: none"> <li>• Payments and Creditors;</li> <li>• Budgetary and Financial Control;</li> <li>• Payroll; and</li> <li>• Income and Debtors.</li> </ul> <p>Internal audit reported that the key controls, in respect of the first 3 areas, were not operating effectively at the time of their visits. As a result, internal audit plan to carry out a "Phase 2" review in April/ May 2006 which will revisit these areas. In addition, forensic testing of payroll and payments has also been completed.</p> <p>Two VisitScotland staff have been appointed as internal assessors to visit and review the TICs. These staff are supported by training/ guidance from internal audit.</p> <p>PricewaterhouseCoopers (PwC) completed a financial due diligence review of the ATBs prior to the implementation of the tourism network. The findings from this review were reported to the Audit Committee in January 2005. The main points arising from this review have been monitored by the Audit Committee and followed up and actioned as necessary.</p> <p>The Accountable Officer will review the effectiveness of the system of internal control and ensure that appropriate disclosures are included in the Statement on Internal Control (SIC).</p>	<p>Liaison with internal audit, review of internal audit reports and detailed examination of internal audit working paper files as appropriate.</p> <p>Substantive sample sizes will be increased to reflect internal control weaknesses.</p> <p>Detailed review of SIC disclosures.</p>	<p>The SIC describes the processes for identifying, monitoring and managing risks, the work of internal audit and the role of the audit committee.</p> <p>The SIC includes actions taken to address the control weaknesses identified in internal audit Accounts Payable, Payroll and Budgetary Control reviews.</p> <p>An update on the implementation of the key internal audit recommendations was given at the October 2006 Audit Committee meeting. A full formal follow up of all reports will be undertaken by the new internal auditors.</p> <p>The October 2006 audit committee considered the results of the TIC internal audit programme. There had been 76 TIC visits.</p>



Risk	Management assurances	Planned audit action	Outcome
<p><b>2. Corporate Governance</b></p> <p>Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. Any weaknesses in the corporate planning cycle or in the processes in place to review its operation will lead to risks in the effectiveness of governance arrangements and the achievement of objectives. Key issues in the current year are:</p> <ul style="list-style-type: none"> <li>• The scope and timing of information provided to the Board in relation to the implementation of the TNS and other strategic developments; and</li> <li>• The extent of financial management and budgetary control exercised by the Board.</li> </ul>	<p>At the Board meeting in July 2005, the Director of Corporate Services presented the findings from a review, carried out with PwC, of VisitScotland's corporate governance arrangements against best practice guidance.</p> <p>At the Audit Committee meeting in February 2006, it was agreed that the Director of Corporate Services would carry out a further review of governance arrangements and report to the Board.</p> <p>Board minutes (December 2005) report that both income and expenditure are expected to be in line with budget by the end of the financial year.</p> <p>The Board has requested that future finance reports should show most likely outturn (forecast) and include a narrative to explain any potential problems.</p> <p>The Tourist Boards (Scotland) Bill will increase the limit on the size of the VisitScotland Board from 7 members to a maximum of 12 members.</p>	<p>Review of Board minutes/papers.</p> <p>Follow up – Management Letter 2004-05 (Audit Committee Checklist).</p> <p>Review of governance report prepared by Director of Corporate Services.</p> <p>Overview of corporate governance arrangements.</p> <p>Detailed review of SIC disclosures.</p>	<p>There have been various discussions on corporate governance at Board meetings in 2006 led by the Chairman and the Chairman of the audit committee. A paper on Members' expectations of information issued to them by the Senior Management Team was issued for the October 2006 Board meeting. It was agreed that reporting mechanisms were to be investigated further by the Chairman, audit committee Chairman and Director of Strategy, Partnerships and Communication.</p> <p>Audit committee terms of reference were approved subject to minor additions on sources of assurance, and subject to review following Board discussions on governance. VisitScotland propose to send finalised terms to the audit committee meeting in February 2007.</p> <p>The frequency of audit committee meetings has increased to three a year.</p> <p>The SIC describes risk management, internal audit and audit committee arrangements.</p> <p>A Finance Report at each Board meeting summarises the financial position.</p> <p>The Group income and Expenditure Account shows a deficit of £1.535m.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>3. Performance Management</b></p> <p>Regular performance information presented to the Board tends to be general in nature. The first Board review, specific to performance against KPIs and annual targets identified in the Business Plan for 2005-06, did not take place until March 2006.</p> <p>In the absence of a timely and effective approach to performance management there is a risk that performance information is not sufficient to ensure the efficient delivery of corporate objectives.</p>	<p>At the Board meeting in October 2005, the Chief Executive led a discussion on lessons learned from the last year. It was agreed, at this meeting, that a more technical post-project analysis in respect of the TNS implementation is required. It is intended that this internal review will be completed by September 2006.</p> <p>The Scottish Executive has commissioned a Gateway Review of the TNS.</p> <p>The performance paper, presented to the March 2006 meeting of the Board, provided a detailed review of achievements against the Business Plan.</p>	<p>Review of Board minutes/papers.</p> <p>Obtain confirmation of completed Gateway Reviews and implementation of recommendations.</p>	<p>A TNS Lessons Learned report was prepared in November 2005 and there was an internal review workshop facilitated by external consultants.</p> <p>As recommended by the final Gateway Review in May 2006 key TNS lessons learned have been reflected in the VisitScotland approach to new project initiation and management.</p> <p>The final Gateway Review recommended an independent Post Implementation Review followed by a further Gateway Review. SE decided not to carry out a further review however they had no objection to VisitScotland carrying out further work</p> <p>VisitScotland decided not to carry out any further work on its approach to major project management.</p> <p>As recommended by the final Gateway Review appropriate staff have received project management skills training and a central resource to support and advise on project management will be provided through the business planning team.</p> <p>The Chief Executive's report at Board meetings provides a summary of progress against KPIs and the Progress Against Objectives paper contains detailed information on activities. There is a formal report on KPIs twice a year.</p> <p>For 2006-07 a revised set of KPIs has been introduced consolidating existing KPIs and introducing new ones where improved performance methods had been identified.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>3. (Continued)</b> <b>Event Scotland</b></p> <p>In particular, the performance of EventScotland is not systematically monitored by the Board and there is a further specific risk in relation to ensuring that the performance of the TNS meets the expectations of the restructuring process.</p>	<p>A draft paper outlining the governance arrangements for EventScotland was discussed, by the Board, in May 2005. It was agreed, at this meeting, that a written report on EventScotland's activities would be provided to every meeting and the EventScotland Chief Executive would be invited to attend the VisitScotland Board at least twice each year. In accordance with these arrangements, the Chief Executive of EventScotland attended the Board meetings in December 2005 and March 2006.</p> <p>EventScotland's outline Business Plan was presented to the Board in March 2006. Core operational KPIs are identified in the Business Plan. Organisational KPIs assessing EventScotland's own performance are under development.</p>	<p>Review of Board minutes/papers.</p> <p>Obtain confirmation of completed Gateway Reviews and implementation of recommendations.</p>	<p>Each Board meeting includes a report on EventScotland. August 2006 Board minutes record that subject to a due diligence exercise it is intended that EventScotland report directly to the VisitScotland Board.</p> <p>KPIs assessing EventScotland's own performance have been produced.</p> <p>The October 2006 audit committee considered the draft EventScotland risk register.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>4. Risk Management</b></p> <p>Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled and is a key element of the framework of corporate governance.</p> <p>We are concerned to note that risk management processes are not sufficiently integrated into the Board agenda. In addition, the business as usual risk register is not subject to a comprehensive periodic review.</p>	<p>The risks associated with specific projects are considered as part of the project management arrangements.</p> <p>PwC reported, on their review of the risks associated with the new IT systems, office move and TNS projects, to the Audit Committee in February 2005.</p> <p>Management recognise that a comprehensive review of the organisation's risk register is overdue and this was raised at the Audit Committee in February 2006.</p>	<p>Track management assurances.</p> <p>Detailed review of disclosures in the Statement on Internal Control (SIC).</p>	<p>Audit Scotland carried out an overview of the project management arrangements for the replacement of the general ledger and procurement systems – see 7 below.</p> <p>The SIC describes risk identification, monitoring and management.</p> <p>The risk register was reviewed and updated at the June 2006 audit committee.</p> <p>The October 2006 audit committee considered the draft EventScotland risk register.</p> <p>Risk registers for both VisitScotland and EventScotland will be reviewed with the internal audit team with a report to the audit committee in early 2007.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>5. Partnership Working</b></p> <p>VisitScotland has entered into a network of relationships, projects and initiatives in partnership with a number of other bodies. Major partner organisations include local authorities, Scottish Enterprise, Highlands and Islands Enterprise and tourism organisations. In this environment there are risks that:</p> <ul style="list-style-type: none"> <li>relationships are not sustained and/ or funding levels are reduced. This could impact on VisitScotland's ability to maintain activity levels and meet corporate objectives;</li> <li>unclear accountabilities may lead to duplication and inefficiencies; and</li> <li>relationships are not clearly defined and the work of partnership bodies doesn't complement the efforts of VisitScotland and others in achieving the 50% growth tourism target.</li> </ul>	<p>Regular updates to the Board in respect of partnership arrangements and opportunities for further development.</p> <p>The Industry Engagement Directorate plays a key role in working with tourism organisations to create packages which will formalise partnership arrangements. A business opportunity package has been developed to replace ATB membership and partnership agreements with local authorities have been established.</p>	<p>Track management assurances.</p>	<p>Board meetings were regularly updated on projects which could be undertaken together with Scottish Enterprise and Highlands and Islands Enterprise, on Area Tourism Partnerships, partnership agreements signed with local authorities and other partnership opportunities.</p> <p>The June 2006 Board meeting was told that the Chairman and Chief Executive had raised concerns over local authority funding with the Minister but had been told that no additional funding was available.</p> <p>At the August 2006 Board meeting it was reported that two local authorities had made significant cuts in funding. It was agreed that local authority funding cuts should be addressed with appropriate cuts in activity.</p> <p>A fall in funding from local authorities was added to the risk register.</p> <p>Board meetings were regularly updated on confirmed orders for the business opportunity package. A two tier application process was introduced to simplify the process for smaller applications.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>6. Accounts Preparation Timetable</b></p> <p>The complexities of the integrated network will impact on the accounts preparation timetable. A number of issues will need to be addressed prior to the submission of draft accounts. These issues include:</p> <ul style="list-style-type: none"> <li>• Agreement on the format of accounts for the NTBs, VS and Group;</li> <li>• Consolidation issues/ group account disclosures;</li> <li>• Accounting for FRS17 pension liabilities and related disclosure requirements;</li> <li>• The transfer of opening balances from the former ATBs; and</li> <li>• Valuation of ATB properties.</li> </ul> <p>There is a risk that the annual accounts will not be submitted in accordance with the statutory deadline of 30 September 2006.</p>	<p>Additional finance staff have been appointed, on a temporary basis, to address the issues identified.</p> <p>Hymans Robertson is providing advice in relation to FRS 17 pension liabilities.</p> <p>A draft accounts preparation timetable has been prepared.</p> <p>PwC completed a financial due diligence review of the ATBs prior to the implementation of the tourism network.</p> <p>The findings from this review were reported to the Audit Committee in January 2005.</p> <p>The main points arising from this review have been monitored by the Audit Committee and followed up and actioned as necessary.</p>	<p>Ongoing liaison with finance staff.</p> <p>Monitor compliance with the planned timetable.</p>	<p>The first draft account was provided on 4 September 2006 in line with the timetable.</p> <p>The first draft accounts included financial statements for the Group however we did not receive a cash flow or separate financial statements in respect of VS and the NTBs.</p> <p>We received a revised Group Account (including the cash flow) and a VS Account on the 17th November.</p> <p>Accounts for the NTBs are expected to be forwarded at a later date.</p> <p>See <i>paragraph 20 and the action plan point</i>.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>7. New IT Systems</b></p> <p>New IT systems were implemented during 2005-06. These integrated systems, which include:</p> <ul style="list-style-type: none"> <li>• the general ledger (Accpac),</li> <li>• procurement system (Fraxion) and</li> <li>• a customer relationship management system,</li> </ul> <p>were intended to meet the needs of the tourism network.</p> <p>However, a number of issues have arisen during the year, which have resulted in operational inefficiencies and weaknesses in internal control.</p> <p>As a result, the existing software supplier (Sage) has agreed to replace the general ledger and procurement systems with effect from July 2006.</p> <p>Failure to implement the replacement systems could present a reputational, operational and/ or financial risk to VisitScotland.</p>	<p>It was agreed, at the Audit Committee meeting in February 2006, that a formal post implementation review of the 2005-06 IT system implementation would be completed.</p> <p>Manual authorisation and payment controls have been introduced to address the specific control weaknesses arising from the implementation of Fraxion.</p> <p>Formal project management arrangements for the planned IT system replacement have been implemented.</p>	<p>IT audit review – an overview of the project management arrangements for the replacement of the general ledger and procurement systems.</p>	<p>The Director of Corporate Services is the formal project sponsor and keeps the project board up to date with developments. At a fact finding meeting with Audit Scotland in April 2006 he provided a background overview of issues and problems with implementing the new financial systems.</p> <p>A number of key documents were provided as evidence of good project management process being used such as:</p> <ul style="list-style-type: none"> <li>• PID</li> <li>• Internal communication plan</li> <li>• Business system statement of work</li> <li>• Specifications</li> <li>• Project steering group minutes.</li> </ul> <p>In addition data cleansing and data migration test plans were finalised and VisitScotland provided project updates.</p> <p>The system went “live” during August 2006. No apparent problems were identified.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>8. VisitScotland.com</b></p> <p>ETourism Ltd, which operates visitScotland.com, is a joint venture between Tourco Ltd (which is fully owned by VisitScotland) and the private sector. This investment raises issues in respect of performance and future outlays.</p> <p>In particular, there is a risk that visitScotland.com does not meet the financial performance and/ or activity levels outlined in the original Business Plan.</p> <p>At the present time, recovery of the loan made by VisitScotland to Tourco Ltd, is considered doubtful. In addition, VisitScotland Group's share of the operating loss could be higher than expected.</p> <p>It is likely that there will be a need for further investment in the joint venture in order for it to remain competitive in a market which is predominantly influenced by developments in new technology.</p>	<p>Regular performance reports and updates to the Board.</p> <p>Changes to the shareholdings in visitScotland.com are planned.</p>	<p>Review of Board minutes/ papers.</p>	<p>Tourco Ltd is now a wholly owned subsidiary of VisitScotland.</p> <p>Tourco's shareholding has increased from 25% to 36% at nil cost.</p> <p>In exchange for the shares, Tourco accepted a change in the basis/phasing for repayment of the outstanding loan.</p> <p>Repayment was due to begin in 2006/07 but this will be delayed until eTourism's cash reserves reach a certain level.</p> <p>Interest on the loan will continue to accrue. In addition, a revised arrangement for supplementary loan funding was agreed.</p> <p>Board meetings received regular updates on visitScotland.com bookings statistics.</p> <p>The August 2006 Board meeting noted the good progress being made by visitScotland.com whilst recognising the need to monitor delivery of the business plan particularly the need to increase the number of bookings.</p> <p>There is a new website software supplier.</p> <p>There is to be a new VisitScotland.com Advisory Board.</p>



Risk	Management assurances	Planned audit action	Outcome
<p><b>9. European Funding</b></p> <p>The integrated network relies on £3m of European funding at the present time.</p> <p>There are a number of risks associated with this funding source.</p> <p>In particular, European funds are subject to rigorous regulations which create a risk of non compliance and the possibility of clawback.</p> <p>There is also an issue relating to sustainability and the threat of activities being discontinued.</p>	<p>Internal audit review of European Funding.</p> <p>A number of Scottish Executive and European Commission audits have been completed during the year.</p> <p>The Board recognises that VisitScotland and its partners should identify opportunities to maintain European projects that are working well.</p> <p>A paper on European Funding was presented to the Board in March 2006. This paper provides an overview of the significance of European Funding to the work of VisitScotland and recommends an approach to developing future funding opportunities.</p>	<p>Review of internal audit report and/ or working paper file.</p> <p>Review of Scottish Executive and European Commission audit reports.</p>	<p>Internal audit May 2006 review found that generally controls surrounding European Funding to be operating as expected. Four recommendations were made.</p> <p>A paper is to be presented to the November 2006 Board meeting to update members on the consultation exercise launched by the Scottish Executive in relation to the draft Operational Programmes for the European Structural Funds in Scotland from 2007 to 2013 and to seek approval for a process for producing a VisitScotland response to this consultation.</p> <p>The Scottish Executive carried out ERDF verification checks in 2005-06. We reviewed a Scottish Executive report for one of the projects.</p> <p>The Scottish Executive visiting officers were of the opinion that, in general, management and financial systems were in place to ensure that the ERDF supported project met the requirements as detailed in the report.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>10. Best Value</b></p> <p>Since April 2002 there has been a duty on Accountable Officers to ensure arrangements are in place to secure best value.</p> <p>High level guidance was issued in May 2003, followed by more detailed draft secondary guidance in August 2003.</p> <p>This draft guidance applied to the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS).</p> <p>There is a risk that VisitScotland's best value arrangements are not sufficiently developed to meet the requirements of the guidance.</p>	<p>VisitScotland's operational strategies are structured around the organisation's 5 core objectives.</p> <p>Objective 5 is to manage the business efficiently and effectively. The 2005 – 2008 Business Plan identifies 6 activities including business improvement, supported by key performance indicators (KPIs) and 2005-06 targets, under this aim.</p> <p>A preliminary self assessment against Scottish Executive guidance on best value was carried out during 2003/04.</p> <p>A draft action plan, to address those areas where further work is required, was prepared following this initial assessment.</p> <p>The draft plan was revised and presented to the Audit Committee in January 2005. It is intended that the agreed action plan will be implemented during 2005-06.</p>	<p>Audit Scotland diagnostic tool – baseline review of current arrangements.</p>	<p>Paragraphs 39 to 42 above describe the background to best value and the conclusions of our baseline review.</p>

Risk	Management assurances	Planned audit action	Outcome
<p><b>11. Information &amp; Sales Review</b></p> <p>VisitScotland is reviewing all aspects of its information network, including sales support services, under the banner of its Information and Sales Review. There are risks that:</p> <ul style="list-style-type: none"> <li>once implemented, this project will fail to deliver service improvements or planned efficiencies; and</li> <li>Resources are insufficient to deliver the scale and range of business transformation required.</li> </ul>	<p>Operation of robust project management arrangements including the identification of key risks. A project advisory group has been established and a project manager and a communications manager have been appointed</p> <p>The initial stage of the project incorporated an extensive research programme. Research workstreams included consumer research, retail opportunities, technology and existing TIC partnerships.</p> <p>Regular presentations and reports to the Board.</p>	<p>Review of Board minutes/ papers.</p>	<p>The Board were regularly updated on progress with the “Way Forward” review. The review had resulted in streamlining of the new TIC staff structure.</p> <p>The management team were updated in September 2006 on implementing the “Way Forward” including proposals for downloading visitor information, partnerships with local organisations to deliver tourist information, and increasing net income from retail sales.</p>

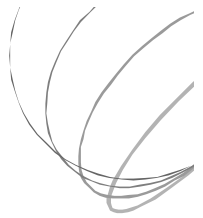
# Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
1	14	<p><b>Finance Function - Staffing &amp; Skills</b></p> <p>Visit Scotland has invested in new financial systems to help it manage the increased complexity of the networks and the group.</p> <p>We have observed that the substantive staff and skills in the finance function have remained relatively static during this period of significant change. As a result, VisitScotland has been dependent on temporary staff to support both the day to day business and the production of the statutory accounts.</p> <p>There is a risk that the current substantive levels of staff and or skills will prevent VS completing its financial reporting within the targets set by the Board and the Statutory deadlines. Furthermore, existing staffing and skills will act as a limiting factor in the continuing development of support to other parts of Visit Scotland</p> <p><i>We would recommend that Visit Scotland conduct a further review of the staffing, skills and training needs of the finance function and invest in additional resources as may be determined</i></p>	High	Following a period of significant change and pressure on time. Management are currently reviewing the structure of the finance function and the skills required in order to provide the appropriate level of staff resource going forward.	Ken Neilson Director of Corporate Services	31 March 2007

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
2	20	<p><b>Accounts Preparation</b></p> <p>We acknowledge the difficulties caused by the complexity from the integrated network and the significant efforts made by Finance staff to meet statutory deadlines. We received a draft account on 4 September as agreed, however a number of issues arising from the accounts preparation process were identified:</p> <ul style="list-style-type: none"> <li>• The first draft account was a hybrid of transactions for VS, NTB1, NTB2 and the Group;</li> <li>• There were no separate accounts for the NTB's, VS or cash flow statements;</li> <li>• There was a lack of clarity in respect of the account expectations for the integrated network;</li> <li>• There were a number of significant accounting issues which were not resolved until late in the audit process.</li> </ul> <p>A separate account for VS was received on the 17th November with a cash flow shortly after, however no separate NTB accounts were submitted before sign off of the Group account.</p> <p>As a result of the above, there were a number of inefficiencies and delays in completing our audit. In addition, there were a significant number of material adjustments identified during our audit.</p> <p><i>We recommend that early consideration is given to major account preparation and format issues in future years. Significant accounting issues should be resolved with the auditors and the Scottish Executive on a timely basis</i></p>	High	As noted in action point 1 above a review is under way to establish appropriate skills and staffing levels which will address the need for time for planning and preparation work ahead of the annual accounts workload.	Ken Neilson Director of Corporate Services	31 March 2007

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
3	28	<p><b>General Governance Arrangements</b></p> <p>VisitScotland's annual business cycle, including business plans, budgets and financial reporting was discussed with both the Director of Corporate Services and the Audit Committee Chairman.</p> <p>We observed that the timetable for the annual business cycle is sensitive and that the timing of Board meetings during the business cycle may lead to a risk that the Board is asked to approve decisions by management 'after the event' with insufficient opportunity for Board involvement earlier in the business cycle.</p> <p><i>We recommend that the Board review VisitScotland's annual business cycle and the phasing of Board meetings during the year to ensure that sufficient 'lead time' is allowed for the involvement of the Board at the appropriate stages in the business cycle.</i></p>	High	<p>Management have reviewed the timing of Board meetings during the year in respect of the planning cycle.</p> <p>The Chairman has agreed to a revised programme of meetings. The annual Board strategy meeting has been brought forward and will be held in March each year. Following this Management will prepare departmental plans to feed into the main business plan by September, and this plan will be drafted for presentation to the Board at the January meeting.</p> <p>There will be Board meetings in both February and March which will allow the Board to see and discuss any revisions to the plan and approve a final draft before the start of the plan year on 1<sup>st</sup> April.</p>	Riddell Graham Director of Strategy, Partnerships and Communications	19 Jan. 2007





# Appendix C: Auditor General for Scotland published reports

Auditor General for Scotland

*Relocation of Scottish Executive Departments, Agencies and NDPBs (published 21/9/2006)*

1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.

Auditor General for Scotland

*Leadership Development. How Government Works (published 17/11/2005)*

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services.

Auditor General for Scotland

*Scottish Executive: Supporting New Initiatives. How Government Works (published 10/11/2005)*

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.





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