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VisitScotland

Annual audit report to VisitScotland

and the Auditor General for Scotland

Year ended 31 March 2011

5 September 2011

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of VisitScotland and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

VisitScotland's main objective is to promote and market Scotland as a tourist destination at home and abroad. This includes researching customer needs, focused marketing campaigns and working closely with other tourism organisations and businesses across Scotland.

The corporate plan 2010-14 identified five corporate objectives which underline all VisitScotland business activities; achievement of these objectives is essential to the continued success of the organisation.

The continuing difficult economic climate creates significant financial pressures for all public sector entities, including VisitScotland. In particular, the reduction in Scottish Government funding and the uncertainty surrounding future funding makes medium to long term financial, and therefore business planning, difficult. In 2010-11 Scottish Government funding reduced by £3.9 million and is anticipated to fall further over the next few years, although this has yet to be confirmed following the Scottish Government's spending review. There are also associated risks and pressures with other income streams as the impact of funding cuts hits partner organisations.

Management has carried out cost saving reviews and implemented a number of projects to reduce costs in order to work within lower levels of funding. This process has followed on from that in prior years and management has accelerated a number of previously identified schemes to meet funding levels.

Following approval of the financial statements, we have issued unqualified audit opinions on the financial statements and the regularity of transactions. Under IFRS VisitScotland has reported a significant surplus of £4.1 million for 2010-11, however, this directly relates to a one-off pensions credit recognised in the year which, for the purpose of measuring resource performance against target, has been excluded by agreement with the Scottish Government and as a consequence recognised as non-resource income. On this basis, VisitScotland reports an underlying net outturn surplus of £10,000 for 2010-11 as measured against its core resource expenditure target.

Management submitted a balanced budget for 2011-12 based on the information available, despite not receiving formal notification of the final 2011-12 allocation. The cost reduction projects identified are embedded within this budget and will be required to deliver savings in year to balance the budget. Printing and distribution and supplier management have been identified as two key areas in which savings can be made. A voluntary redundancy programme carried out during 2010-11 will also bring better than expected year on year savings in the region of £1.5 million.

VisitScotland has made good progress in respect of efficiency savings, having met and exceeded the target set under the efficient government scheme in 2008-09 by the end of 2009-10. A further internal target was set in 2010-11 of £930,000 and, again, management have demonstrated achievement of this with total savings of £1.21 million.

We identified three key significant risk areas under the Audit Scotland priorities and risk framework: financial management, partnership working and planning and resource alignment. We have considered the actions taken by management in order to mitigate risks in these areas and updated the position from that reported in our interim management report. Management has undertaken actions to mitigate risks in each of these areas, but risks remain and ongoing monitoring will be required.

During the year management performed self-assessments of arrangements for achieving Best Value through completing all 18 Audit Scotland toolkits. These found that VisitScotland demonstrated 'basic practice' or 'better practice' in all 18 areas. This demonstrates a commitment to embedding Best Value across the organisation and provides evidence to back up the increased disclosures on Best Value required in the statement of accountable officer's responsibilities this year.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 March 2011.

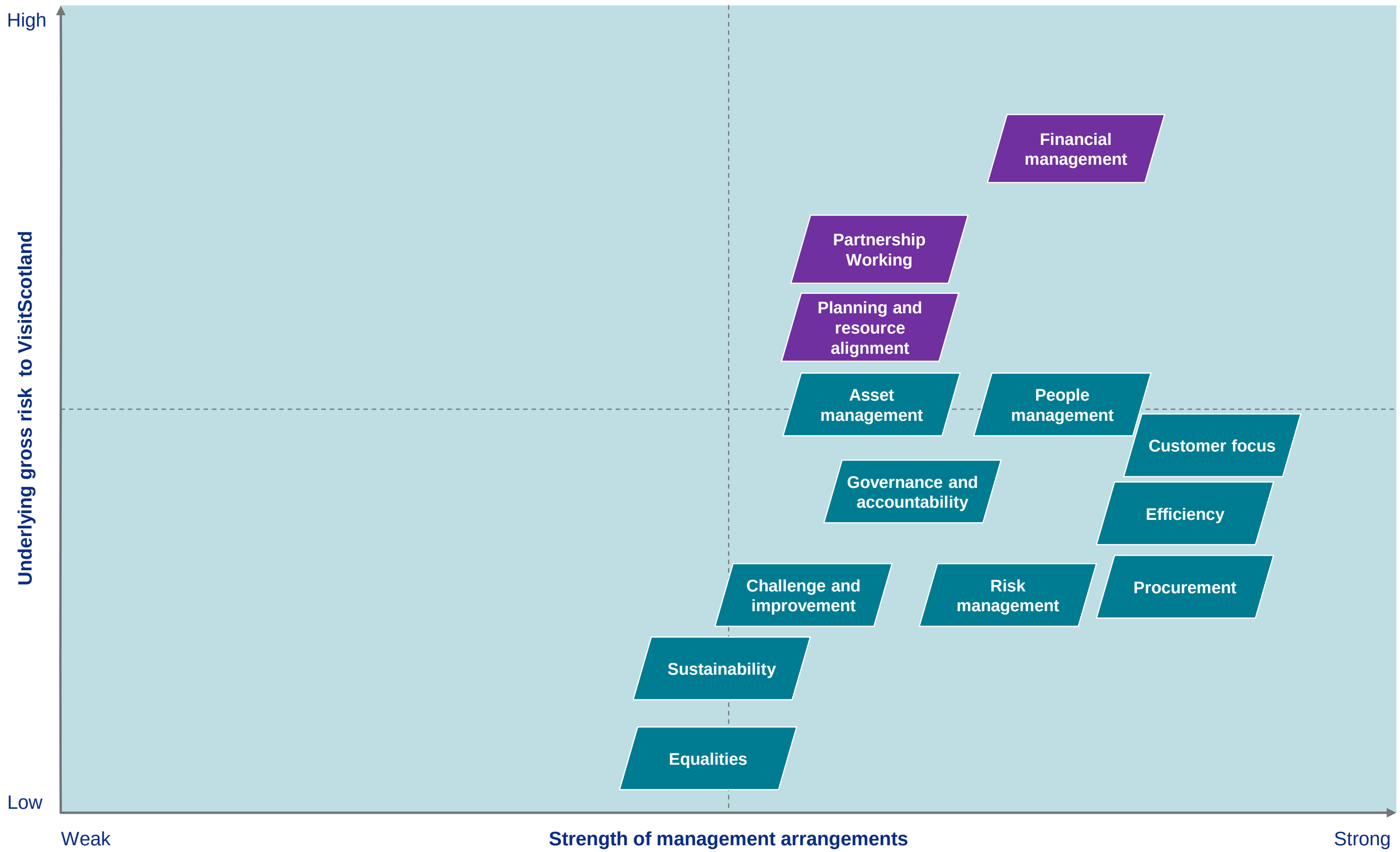
We wish to record our appreciation of the continued co-operation and assistance extended to us by VisitScotland staff during the course of our work.

Priorities and risks	
We have reported risks in respect of financial management as a result of uncertainty over future funding allocations. However, internal processes for preparing and monitoring financial plans should assist in reducing the likelihood and potential impact to the organisation.	Page 4
We continue to report significant risks in the areas of planning and resource alignment and partnership working despite changes and improvements during the year. In our view, the risks in these areas continue to present ongoing challenges to recurring financial and service sustainability.	Pages 4-6
Financial statements	
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in those financial statements.	-
A number of technical accounting matters were considered during the audit process; management provided good quality analysis. Audit adjustments were required to the presentation of the financial statements but there was no impact on the outturn for the year.	Page 7
Use of resources	
VisitScotland had a slight deficit position on its overall net outturn against its financial targets; the target was particularly challenging given the significant reductions in funding from previous years.	Page 8
Management completed each of the Audit Scotland Best Value toolkits, and concluded that arrangements all displayed either basic or better practice. Areas for potential improvement were identified, but these will require to be prioritised against related costs.	Page 11
We assessed management's response to Audit Scotland's national reports on procurement and use of consultants; in the majority of areas, management has taken reasonable action to mitigate risks and improve processes at a local level.	Page 11
Governance	
There have been no significant changes to the overall governance framework in the year, but there have been changes to the senior management team, notably the appointment of a new chief executive, and updates to the scheme of delegated authority. The statement on internal control continues to confirm the existence of a comprehensive framework of internal control.	Page 12
Internal audit completed their plan and did not report any high risk recommendations. Reviews performed included reviews of board effectiveness and risk management processes and recommendations have been defied to improve arrangements.	Page 12
Arrangements to prevent and detect fraud are embedded in internal controls and are appropriate for the organisation. No significant instances of fraud have been identified during the year.	Page 12

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges. Overall, the impact of sector priorities present a high risk to VisitScotland.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that risks exist, but where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

Risks exist in relation to financial management, partnership working and planning and resource alignment. Management has put in place processes and controls in each of these areas but close ongoing monitoring will be required to ensure these are effective.

Financial management	VisitScotland has yet to receive formal notification of the 2011-12 allocation from the Scottish Government but a significant reduction in funding is expected. There is further uncertainty over allocations for future years. Reductions in other income are also expected to continue as funding cuts place strains on the local authority bodies which VisitScotland works with. In order to maintain a balanced budget management have performed an exercise to identify areas for potential savings and have put plans in place to implement these. This has followed on from the process started in 2008-09 as part of the 'customer first' strategy.	The success of cost reduction strategies is evidenced through the achievement of challenging internal efficiencies. Indeed certain strategies such as the voluntary redundancy scheme, are likely to surpass original expectations for recurring savings. VisitScotland has submitted a balanced budget for 2011-12 based on expected levels of funding and have plans in place to reduce spend and closely monitor performance against budget. Reductions in funding and uncertainty surrounding future budget allocations present risks to VisitScotland's ability to continue the current level of service provision.
	■ In our view significant risks exist, but actions have been identified which are likely to address the matter as far as possible. Further consideration will need to be given to longer term financial management once confirmation of funding allocations is received.	
Partnership working	Management has identified partnership working as a key strategic object for VisitScotland over the next few years. This is particularly important for VisitScotland due to the levels of funding and operational interaction with various partner organisations and is made more acute by forecast reductions in grant in aid funding. There are risks that the current economic pressures result in partner organisations redirecting funding away from VisitScotland. A strategic review of partnership working was performed during the year which resulted in roles and responsibilities amongst directorates being redefined. There has also been a focus during the year on ways in which VisitScotland can generate efficiencies and future savings through different methods of working with partner organisations.	The strategic review has enabled the partnership directorate to focus on identifying, developing and improving relationships with potential and existing partners. Management has identified a number of areas in which they can work with partners to generate efficiencies, for instance through participation in national contracts. VisitScotland also participates in shared service arrangements, including certain human resource services, which are provided to other public sector organisations. Whilst generating small income streams for VisitScotland, these are likely to assist partner organisations in delivering efficiencies. Management have demonstrated that they have taken proactive steps to develop partnership working and are continuing to do so.
	■ In our view, risks exist but actions have been identified to address these risks.	

Assessment of significant risks (continued)

Planning and resource alignment	Planning and resource alignment has been an area of focus in the last few years following the 'customer first' focus in 2008-09; there has been particular focus on this in 2010-11. Management has had significant savings targets to deliver since 2008-09 to ensure that VisitScotland can operate with reduced funding from the Scottish Government. Ensuring these targets are met increases pressures on successfully aligning resources. An exercise has been performed to identify core and non-core activities of the business which will be used by management going forward in order to prioritise activities in light of funding cuts and reduced levels of available resources.	A new business planning department was set up during the year. This has functional responsibility to effect changes identified by management to ensure appropriate alignment between available resources and corporate objectives. Management have carried out detailed analysis to identify numerous areas of cost savings and projects to assist in reducing costs accordingly so as to maintain a balanced budget for the financial year 2011-12 and beyond. Planning and resource alignment will be of increasing importance going forward. VisitScotland will require to ensure arrangements are appropriate to deliver strategic goals in an environment where partner organisations are changing priorities. Flexibility will be critical.
	■ In our view risks exist but actions have been identified to address these risks.	

Financial statements preparation and audit process

Management anticipated risks around the accounting for property, plant and equipment, retirement benefits and eTourism; no audit adjustments were required and matters were concluded in a timely manner.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property portfolio valuation	(176)	537	A full valuation exercise was performed at 31 March 2011 by an independent valuer resulting in an upward revaluation of £537,000. Following consideration whether this reversed impairments previously recognised in the statement of comprehensive net expenditure, this was recognised in the revaluation reserve. ■ Financial statement disclosures in this respect are materially complete and accurate.
Retirement benefits	(28,103)	(13,156)	The change in the retirement benefits net liability since the prior year is partly the result of in year contributions and changes in assumptions, including the change in future pension increases from RPI to CPI. Accounting for retirement benefits under IAS 19 in the year resulted in a net credit of £4.1 million being reflected in staff costs for the year; this credit does not count against VisitScotland's financial targets. ■ Financial statement disclosures in this respect are complete and accurate.
e-Tourism Limited	-	-	On 31 March 2011 the trade and assets of eTourism were 'hived up' to VisitScotland. This included the write off of eTourism's outstanding intercompany loan (previously fully provided for) which was written off in accordance with approval from the Scottish Government. As at year end, the balance sheet recognised only the remaining share capital of £100,000. ■ Financial statement disclosures in this respect are complete and accurate.

Systems and controls

Preparation of the financial statements

- Draft financial statements were provided on 20 June 2011. Some supporting documentation was provided on 13 June 2011, in line with the agreed timetable. Additional supporting documentation was made available on request throughout the audit.
- The timing of the audit was brought forward this year and the availability of information at the start of the visit demonstrated that strong systems and controls are in place over the preparation of the financial statements.

Control environment

- Overall, management's approach to preparing the financial statements was efficient and improved from prior years.

Financial position

VisitScotland made a small underlying deficit for 2010-11.

The 2011-12 budget reflects a further funding reduction but anticipates a break even position at 31 March 2012.

Management has already achieved targets under the efficient government programme and have introduced internal efficiency savings targets in advance of official targets.

Financial outturn

Under IFRS VisitScotland has reported a significant surplus of £4.1 million for the year ended 31 March 2011, however, this directly relates to an adjustment for retirement benefits of £4.1 million that was credited to the statement of comprehensive net expenditure. For the purpose of measuring VisitScotland's resource performance against its target for 2010-11 this has been excluded by agreement with the Scottish Government, on the basis that it is 'non-cash' and was not available to spend in the year. This has therefore been reflected in the financial statements as non-resource income.

	Non-resource £'000	Core resource £'000	Non-core resource £'000	Total £'000
Total outturn	-	41,276	2,540	43,816
IAS 19 adjustment	(4,119)	4,119	-	-
Final outturn	(4,119)	45,395	2,540	43,816
Target	(4,119)	45,405	2,498	43,784
Surplus / (deficit)	0	10	(42)	(32)

The grant-in-aid allocation for 2010-11 was reduced by £3.9 million from 2009-10 levels and there were pressures on other funding sources during the year, including local authority income. Expenditure for the year includes voluntary severance costs of £2.1 million which was funded from the in year allocation.

The financial outturn achieved reflects successful implementation of a number of savings and efficiency schemes by management to deal with these pressures.

Key risks

There continues to be uncertainty over the levels of future funding allocations from the Scottish Government. Grant in aid funding is anticipated to fall further over the next few years, although this has yet to be confirmed following the Scottish Government's spending review. Management has considered a number of scenarios to react to different possible allocations in future years through reducing expenditure in certain areas.

Whilst management has put plans in place to address potential funding reductions, the large proportion of expenditure reflected by staff costs (around 33%) reduces management's flexibility. With restrictions put in place over compulsory redundancies, management is limited in how this area of spend can be reduced. As a result, significant effort has been put in during the year to reallocate staff and roles where possible.

The anticipated grant-in-aid reductions must also be considered against the backdrop of reductions in other income streams, most notably that from local authorities as they themselves seek to reduce costs and drive efficiencies. Uncertainties around future funding makes it increasingly difficult for management to effectively carry out effective medium to long term financial planning.

Financial position

2011-12

At the time of writing, VisitScotland is still awaiting official confirmation of the 2011-12 grant in aid allocation from the Scottish Government. A balanced budget has been approved based on the best information currently available. Achieving the balanced budget will rely on a number of cost reduction exercises that have been identified and implemented to date. The key areas identified for these savings are printing and distribution and supplier management. In addition, the voluntary redundancy exercise carried out in 2010-11 is projected to generate annual savings of £1.5 million in advance of original expectations at the outset of the scheme.

Management has demonstrated that it is taking necessary steps in order to manage VisitScotland's financial position whilst continuing levels of service delivery, but this is likely to prove ever more challenging in future years. Robust ongoing monitoring procedures will be required to ensure future budgets are delivered against.

Efficient government targets

The Scottish Government issued the "*efficient government programme for 2008-09 – 2010-11*" which details the background to efficient government, its application in various sectors, the types of savings and the method of reporting efficiencies.

VisitScotland's target set by the Scottish Government for 2009-10 and 2010-11 was £1.6 million. Management reported in July 2010 that this target had already been exceeded with cumulative efficiency savings of £2.9 million having been made at that date. An increased internal efficiency target of 2% per annum was therefore set by management. The cumulative savings target for 2010-11 was £3.8 million; this was exceeded and cumulative savings of £4.1 million were reported.

In year efficiency savings of £1.2 million were generated. The table on the right shows key areas of in year efficiency savings.

Since 2008-09, procurement has been a key area of savings for VisitScotland with around 44% of cumulative savings attributed to this area. During the year, efficiencies stemmed from a number of individual sources, including changing a number of supplier contracts and participation in national contracts.

Organisational change reflects the savings from reductions in the size of the senior management team.

Travel savings have been generated through a drive to increase the use of technology and better use of available internal resources.

	2010-11 efficiency saving £'000
Facilities	200
Procurement	434
IT Insourcing	79
Travel	234
Organisational change	240
Total for year	1,187
Efficiency savings at 31 March 2010	2,869
Total efficiency savings	4,056

Management has identified that almost all of the cumulative efficiency savings will recur in future years.

An internal target of 3% has been set for 2011-12 efficiency savings. Management is currently in the process of identifying the schemes that will generate these savings.

Best Value

Management have considered all 18 Best Value toolkits available and graded themselves accordingly.

The table opposite highlights the areas reviewed and the grading as assessed by management.

Management has taken a proactive approach to Best Value and has demonstrated a commitment to the process through enhancing it from prior years. In 2010-11, all 18 of the available toolkits were reviewed and performance against them assessed.

Each toolkit was reviewed by a minimum of three managers or directors this year in order to get a rounded assessment of individual areas and the overall achievement of best value within the organisation. Best Value is closely linked to VisitScotland's strategic objectives and will be of continuing importance given the financial challenges expected in future years.

The table on the right demonstrates management's self assessed ratings following completion of each of the toolkits.

For all toolkits a rating of 'basic practice', or 'better practice', was achieved. The overall rating on average was deemed to be 'better practice'. This exercise gives management a good base line to use going forward to monitor future performance and to target areas for improvement.

Better practice is defined as demonstrating some elements of good or even best practice, but not on a consistent basis. Key areas identified as better practice include financial management and governance and accountability.

Basic practice is defined as being the minimum acceptable standards which would be sufficient to allow an organisation to demonstrate sound performance in a relevant area. Areas of note rated as basic practice include partnership working and planning. Taking into account risks we identified in these areas on our work on the priorities and risks framework management may wish to focus on improving going forward.

Areas displaying basic practice	Areas displaying better practice
Planning	Efficiency
Sustainability	Equalities
Partnership working	Risk
Community engagement	Procurement
People management	Performance management
Public performance reporting	Vision & strategic direction
Information management	Financial management
Challenge & improvement	Governance & accountability
Asset management	Customer focus

Audit Scotland national reports

Management has established procedures to consider and respond, where applicable to individual national reports issued by Audit Scotland

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate.

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work and demonstrating this impact. As part of this process, external auditors are required to provide information on how bodies respond to national performance audit reports.

Consideration of Audit Scotland national studies remains a standing agenda item for the audit committee. Review of meeting minutes provided evidence of discussion of national studies.

On 29 July 2011 we reported to Audit Scotland on VisitScotland's responses to two national reports: *Improving energy efficiency* and *The role of boards.* In relation to the first of these, we reported that the report had been discussed by the audit committee and management is responding to the specific recommendations within the report. In relation to the latter, we reported that the report had been discussed by the audit committee, but that a self assessment had not been performed.

A self assessment of *The role of boards* report was not considered necessary due to other ongoing work with internal audit in this area, including the review of board effectiveness work which was reported to the audit committee on 19 August 2011. This report concluded that the board has a number of strengths but identified a number of areas with scope for development. These were discussed by the board and have been translated into an action plan to ensure these areas are developed.

Improving public sector purchasing

In 2010-11 a more targeted follow-up was required in respect of VisitScotland's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, *Improving Public Sector Purchasing* published in July 2009.

The aim of this follow-up work is to assess how well public bodies are applying guidance to ensure that they can demonstrate value for money when purchasing goods and services.

We have considered current arrangements in relation to procurement and management's response to recommendations and have issued a separate report to management with our findings.

We have recommended that management consider whether there is scope for further efficiency and improvements through providing the audit committee with details of the results of each PCA exercise, including information which provides positive assurance about existing arrangements.

Use of Consultancy Services

We also carried out a targeted follow-up in respect of VisitScotland's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, *Improving Public Sector Purchasing* published in January 2009.

The aim of this follow up work is to assess how well public bodes are using their resources and spending on consultants to ensure that they are getting value for money.

Overall we have found that VisitScotland's guidance in this area is in the main in line with Scottish Government guidance. We have raised two recommendations in our report where management could improve arrangements for monitoring and post contract reviews.

Corporate governance framework and supporting arrangements

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

Corporate governance framework	VisitScotland maintains an integrated governance framework to provide an appropriate structure for maintaining decision-marking, accountability, control and behaviour. Although there has been no change in the overall governance framework, there has been one change in the board composition during the year, being appointment of a new chairman, the appointment of a new chief executive, and updates to the scheme of delegated authority. In addition, internal audit performed a number of reviews to consider governance arrangements including reviews of board effectiveness and of risk management processes. Plans have been put in place to address recommendations arising with a view to strengthening governance arrangements.
Statement on internal control	The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. This statement is in compliance with guidance issued by the Scottish Government.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, we noted in our interim management report that minor weaknesses existed over IT user access rights and payroll. These have since been, or are in the process of being addressed by management.
Internal audit	Internal audit have submitted all of their planned reports for the year. We have reviewed the reports issued in the year and placed reliance on a number of these, where relevant, to reduce our audit testing. These reports do not make any 'critical' recommendations, but they highlighted some risks and control weaknesses and management has agreed actions to address these. Internal audit's 2010-11 annual report notes that they *"…consider that the organisation generally has an adequate framework of control over the systems we examined…"*
Fraud and irregularity	We evaluated the procedures and controls related to fraud as being designed and implemented effectively. VisitScotland has a fraud policy which includes reference to a number of internal procedures designed to ensure that financial, operational and organisational procedures are properly controlled. We have obtained representations from the accountable officer that all known or suspected instances of fraud were disclosed to us during the audit. There were no material instances of fraud reported during 2010-11.

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