



VisitScotland

Annual Audit Report 2012-13

August 2013

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1. Executive Summary

Introduction

The Auditor General for Scotland appointed Grant Thornton LLP as auditors to VisitScotland under the Public Finance and Accountability (Scotland) Act 2000 for a five year period from 2012. This is the second year of our appointment.

This report summarises the findings from our audit work for the year ended 31 March 2013.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is approved by Audit Scotland and the Auditor General for Scotland. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

Our Annual Report

This report summarises the findings from our 2012-13 audit of VisitScotland. The scope of our work was set

out in our Audit Approach Memorandum, which was presented to the Audit Committee on 11 March 2013.

The main elements of our audit work in 2012-13 have been:

- the audit of the financial statements, including a review of the annual governance statement
- a review of corporate governance arrangements, internal financial controls and financial systems
- a review of VisitScotland’s response to national performance reports published by Audit Scotland.

The key issues arising from these outputs are summarised in this annual report.

Overall Conclusions

The table below highlights the key findings emerging from each aspect of our work during 2012-13. VisitScotland continues to perform strongly, delivering a series of challenging projects while meeting financial requirements, including the departmental expenditure limit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by VisitScotland’s Finance Team throughout our audit.

Key Findings

Reporting Area	Our Summary
Financial Statements	<ul style="list-style-type: none"> ■ We intend to give an unqualified opinion on both the financial statements of VisitScotland and on the regularity of transactions undertaken for the 2012-13 financial year. ■ The draft financial statements and supporting working papers were of a good standard, and as a result there were no audit adjustments required following our audit.
Financial Position	<ul style="list-style-type: none"> ■ The balance sheet records a net deficit position of £17,719k (2012: deficit of £13,155k) as a result of significant pension liabilities. ■ VisitScotland reported an increase in resource expenditure in the current year, which was matched by an increase in Grant in Aid funding. The majority of additional funding was

	<p>ring-fenced, and related to key funded projects including 'Brave' and the preparations for the Ryder Cup.</p>
	<ul style="list-style-type: none">■ VisitScotland continues to look to reduce operating overheads within the budget for 2013/14 against a backdrop of significant projects occurring in 2014. A key challenge will be to continue to deliver projects, and demonstrate economic impact, whilst meeting budgetary requirements.
Governance	<ul style="list-style-type: none">■ Our audit confirms that the organisation has effective governance and risk management arrangements in place.■ We are satisfied with VisitScotland's arrangements for the mitigation and detection of fraud across the organisation. VisitScotland participated in the National Fraud Initiative data matching exercise during the year and we were satisfied any issues had been resolved appropriately.
Performance	<ul style="list-style-type: none">■ VisitScotland performed strongly against a number of key performance indicators, although contributions from partners to support projects remains a challenge.■ Early work is underway to consider how VisitScotland can most effectively demonstrate the full outcomes and impact of its role in delivering economic benefit to Scotland.

2. Financial Statements

We intend to give an unqualified opinion on both the financial statements of VisitScotland and on the regularity of transactions undertaken for the financial year 2012-13.

Financial Statements Audit

The draft financial statements were of good quality and we identified no significant errors or misstatements. The supporting working papers reflect the standard of the accounts. Our Audit Findings report which we will present to the Audit Committee on 28 August 2013 provides our detailed findings.

Audit Adjustments

Our audit did not identify any errors which require to be reported.

Internal Controls

We used an interim visit to update our understanding and test controls across a number of VisitScotland's key financial systems.

During our interim audit, we conducted testing on the following areas:

- payroll
- operating expenditure
- other revenues.

Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by VisitScotland.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

3. Financial Position

VisitScotland has reported a relatively stable financial position in the current financial year, with moderate increases in resource expenditure matched to an increase in Grant in Aid funding. The Statement of Accounts continue to record a significant net deficit position as a result of the organisation's pension liabilities.

Key areas of expenditure

VisitScotland incur expenditure on a project by project basis in line with the Corporate Plan as approved by the Board. The overall net operating expenditure for the financial year increased by £5,620k as shown in Table 1 below.

Table 1: Summary statement of comprehensive net expenditure

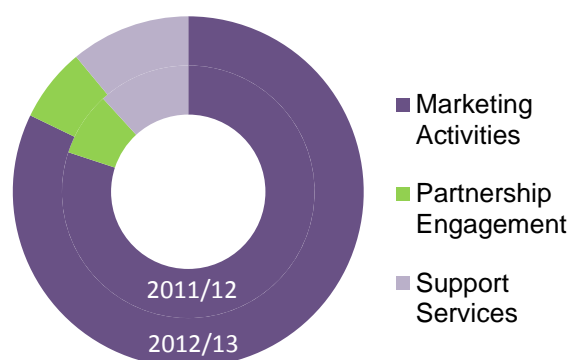
	2013 £'000	2012 £'000
Resource expenditure	63,821	59,748
Non-resource expenditure	1,704	478
Non Grant in Aid income	(13,866)	(14,187)
Net expenditure	51,659	46,039

Source: VisitScotland Annual Report 2012-13

The main movement during the year was in resource expenditure figures with a smaller, yet significant movement in non-resource expenditure. The Non-resource expenditure relates to movements in the actuarial values for the pension funds.

Resource expenditure is split across three categories: marketing activities; partnership engagement; and support services. The overall movement in resource expenditure was an increase of £4.1 million, with the majority of this attributable to marketing activities to support the priorities within the Corporate Plan, as shown in Figure 1.

Figure 1: The majority of the increase in resource expenditure related to marketing activities



Source: VisitScotland Annual Report 2012-13

The increase in marketing activities is in line with the increase in budgeted income from Grant-in-Aid which increased by £4,690k in the current financial year. This allowed VisitScotland the scope to increase marketing activities in 2012-13.

Resource expenditure can also be split into operational and project costs. Operational costs cover staff costs and administration overheads and account for 51% (£32,676k) of the total resource expenditure.

Project expenditure is monitored and budgeted on a project by project basis with key projects in the year being the Ryder Cup, the Brave campaign, the Surprise Yourself campaign and marketing of international and national events. The total project expenditure for the four campaigns listed accounted for approximately 50% of project expenditure.

In the current year the total project expenditure was broadly in line with the budgeted figures overall, although there were variances on a project by project level.

The project budgets are prepared for the life of the project, which can cover multiple financial years. As part of this budgeting process there can be costs which are committed but not incurred during the financial year, due to project timings.

The Youth Olympic Games was not included in the original budget as it was unclear what the role of VisitScotland would be and how this would be funded. During the year VisitScotland were outlined as the lead partner, with funding being recharged from Glasgow City Council. The net effect on overall expenditure was nil and this was added as a project after the year end.

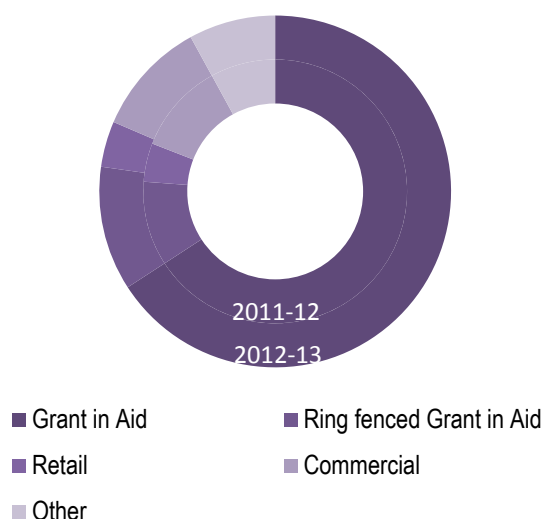
There were increases in spending both for Scotland House at the London Olympics and Year of Creative Scotland expenditure arose from additional funding received during the financial year, which was not included in the original budgeted figures. This was offset by reductions in Grant in Aid applied to the Golf Marketing Programme and Partnerships. The reduction in Partnerships arose from the Spring Budget Revision where a decision was made to cancel this project.

Income for the year

VisitScotland receives income from multiple sources as shown in Figure 2. The majority of funding relates to Grant in Aid. The total Grant in Aid increased during 2012-13, with a significant element ring-fenced for significant national projects such as Homecoming 2014, the Ryder Cup and the Commonwealth Games.

Whilst income in all other categories has remained stable over the last two years, within certain categories there have been some significant movements. Sundry income has significantly increased from £490k to £1,252k, an increase of 155%, which relates to the income received for the Youth Olympic Games bid (£733k). This has been offset by a reduction in the European Regional Development Fund income of £801k (48%).

Figure 2: The majority of VisitScotland's income relates to Grant in Aid, but the ring-fenced element has increased in the year



Financial Position

VisitScotland's statement of financial position reflects a negative total equity position of £17,719k.

The negative position has arisen as a result of pension liabilities at the year end. The liability arising from pension obligations totals £24,512k, offset against other reserves of £6,793k. These pension liabilities will be met over the long term from revenue expenditure funded by grant-in-aid in future years.

Table 2: Summary of VisitScotland Group Balance Sheet

	2013 £'000	2012 £'000
Non-current assets	10,443	11,149
Current assets	8,031	6,938
Current liabilities	(8,642)	(7,062)
Non current liabilities	(27,551)	(24,180)
Total net liabilities	(17,719)	(13,155)

Source: VisitScotland Annual Report 2012-13

Looking forward

VisitScotland have benefited from a relatively stable Grant in Aid allocation from the Scottish Government. However, it has been noted that increasing proportions of this are ring-fenced. Operating overheads are therefore likely to come under pressure during 2013-14. In addition, VisitScotland will continue to plan for high profile projects during 2013-14 such as the Ryder Cup, Homecoming 2014 and the Commonwealth Games. The challenge for VisitScotland will be to manage the cuts in budget while maintaining the quality in service and impact on Scottish economic development.

4. Governance

VisitScotland's governance and risk management arrangements continue to operate effectively. Our follow up of prior year findings has identified a number of improvements in the current year relating to the framework supporting the Annual Governance Statement.

Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records the governance ethos of VisitScotland, and assurances around the achievement of the vision and strategic objectives of VisitScotland. The AGS summarises the governance structures in place, including the internal control framework, arrangements for risk management, financial governance and accountability.

VisitScotland has continued to develop the processes in place for establishing required assurances for the Statement. Each Director has contributed to a self-assessment against the Scottish Government's Internal Control Checklist. The checklist was used as the basis for the Statement of Assurance to the Scottish Government and the AGS.

Compliance with the Scottish Public Finance Manual

Our Audit Approach Memorandum, presented to the Audit Committee on 11 March 2013, identified two areas of risk in relation to compliance with the Scottish Public Finances Manual (SPFM).

Firstly the SPFM was updated to include a requirement that all individuals, who would qualify as an employee for tax purposes must be paid through the payroll system. We presented our initial findings as part of our interim report and have now concluded this work with no issues arising.

Secondly, the SPFM requires that core bank accounts are held with the Government Banking System (GBS) unless this would not be a cost effective option. We noted in the prior year that VisitScotland held all balances with commercial banks. We noted that during the financial year there was a move to the GBS with

balances being held in this account at the year end. There were two accounts held with commercial banks at the year end. The accounts are maintained for the processing of income and mastercard accounts, in line with the requirements of the SPFM.

Risk Management

VisitScotland has well-developed risk management arrangements in place at corporate, directorate and team level. Risks are reviewed regularly by the Senior Management Team and the Audit Committee.

VisitScotland also has separate risk registers for key projects which are monitored by project groups and across partner bodies.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our enquiries of management and VisitScotland's internal auditors found that there were no internal frauds during 2012-13. We conducted testing on journal entries and related party transactions to highlight any unusual transactions. There were no issues arising from this testing.

National Fraud Initiative

VisitScotland have taken part in the National Fraud Initiative data matching exercise 2012/13. We have reviewed VisitScotland's response to the matches identified and have concluded that VisitScotland had appropriate resources in place and there were no matches were not satisfactorily resolved.

Looking forward

During 2012-13, the VisitScotland Board comprised 6 non-executive directors. There are risks associated with operating with a relatively small number of board members. Potential problems can emerge relating to skills gaps or inquorate meetings, which can have an impact on running the organisation efficiently and effectively. We note that VisitScotland continues to work with the Scottish Government to ensure that a further three non-executive Board members are appointed during 2013-14.

5. Performance

VisitScotland is committed to achieving Best Value and has begun work on the development of a new performance management framework which will link the organisation's wide-ranging activities to demonstrable outcomes. VisitScotland should take the opportunity to develop more outcome focused performance indicators.

Strategic Planning

VisitScotland has a Corporate Plan 2013-16 in place, which directly supports the Scottish Government's Economic Strategy, and forms clear links to the National Performance Framework. The Plan outlines how VisitScotland intends to achieve the sustainable economic growth of tourism in Scotland.

The Corporate Plan is underpinned by five corporate objectives, which outline the high-level actions that the Board will undertake to support the attainment of these outcomes. The five corporate objectives relate to:

- Marketing
- Information provision
- Quality and sustainability
- Working in partnership
- Events

The Plan is reviewed and approved annually, and performance against the plan is monitored by the Senior Management Team and the Board throughout the year.

Performance reporting

VisitScotland use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the Board and Directors throughout the year. In 2012-13, VisitScotland reported on performance against 26 targets, including the return on investment achieved against core projects.

The Annual Report summarises performance against VisitScotland's main economic benefit and efficiency KPIs for the year. A number of outcomes for activities are not yet known, but to date, 5 have exceeded the target set, 18 have delivered or are considered to be on target, with a further one not yet reported in full. Two

indicators fell short of expectations, relating to the emerging markets campaign and the additional revenue associated with the Surprise Yourself campaign.

Five of the indicators were regarded as exceptional, including:

- applications to the Bid Fund, where VisitScotland secured £60.8 million of funding
- the economic impact delivered by EventScotland, where a return on investment of 18:1 was achieved
- an international, long haul campaign in Canada and the USA, which achieved additional revenue of £28.1 million, against a target of £20 million
- a European campaign, which achieved additional revenue of £89 million, which equates to a return on investment of 50:1
- on arrival promotions, where the opportunities to see were double the target.

Significant improvements were also achieved in the number of visitors to Visitor Information Centres, and in the achievement of efficiency savings. The cumulative total of efficiency savings since 2008 now exceeds £9.6m, and has been achieved through restructuring, asset management and procurement savings.

Best Value

Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. In addition, the Boards of relevant public service organisations have corporate responsibility for promoting the efficient and effective use of staff and other resources by the organisations in accordance with the principles of Best Value.

VisitScotland carry out a self-assessment annually against each of the characteristics of Best Value. The 2012-13 assessment found a slight improvement in assessments overall. Improvements were noted in information governance and risk management.

VisitScotland continues to assess performance overall as better practice.

A key area for development identified by management relates to demonstrating the outcomes and impact of the work of VisitScotland. Early work has begun to review and substantiate the difference that VisitScotland makes to the Scottish economy.

Sustainability Reporting

During 2011-12, a new requirement was introduced within the FReM to include a section in the annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

The Scottish Government prepared guidance on this *Public Sector Sustainability Reporting- Guidance on the*

Preparation of Annual Sustainability Reports which outlines the minimum reporting requirements covering areas such as:

- Greenhouse gas emissions
- Waste minimisation and management
- Finite Resources
- Action on Biodiversity
- Sustainable procurement

VisitScotland elected to produce a separate Sustainability Report, which was published on the website.

We reviewed the report in 2012-13 to evaluate disclosures against the reporting requirements. We found that VisitScotland have met the minimum reporting requirements and have started working towards best practice by clear reference to targets and progress. There is also a move to improve the information reported by taking steps to improve the data collection process.



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