

# VisitScotland

Interim Audit Report 2016/17



 AUDIT SCOTLAND

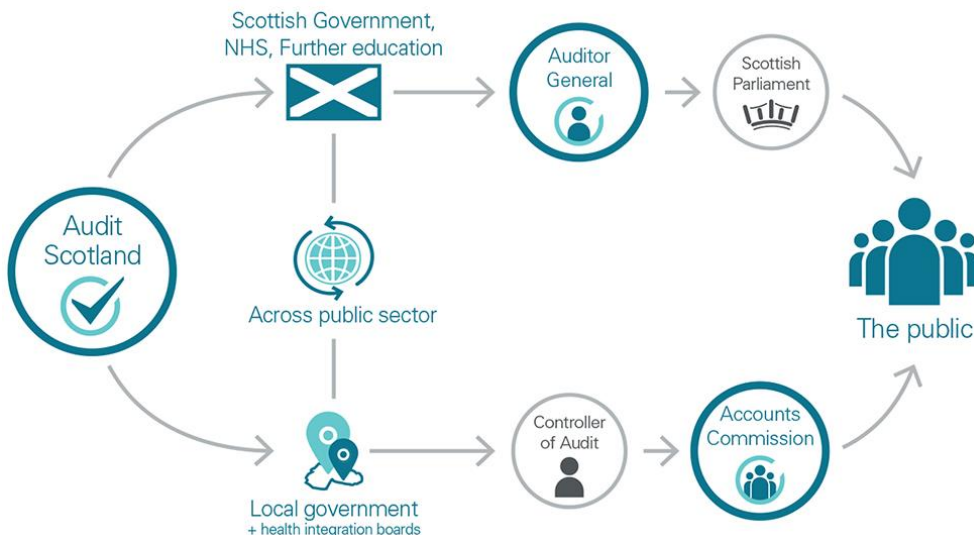
Prepared for VisitScotland

March 2017

# Who we are

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

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



# About us

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

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

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

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# Audit findings

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## Introduction

1. This report summarises the key issues identified during our interim audit work at VisitScotland.
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that VisitScotland:
  - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
  - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
  - complies with established policies, procedures, laws and regulations.
3. Under the Code of Audit Practice (2016), we are also required to carry out wider dimension audit work. This focussed on financial management, financial sustainability, governance and transparency, and value for money.

## Conclusion

4. We concluded that, overall, VisitScotland's systems of internal control are effective. Points arising from our review are set out in paragraph 8 and summarised in [Exhibit 1](#).
5. In terms of our wider dimension audit work, we concluded that appropriate arrangements are in place with scope for improvement in some areas. These are set out at paragraphs 10 to 16 and summarised in [Exhibit 1](#).

## Work summary

6. During our interim visit we carried out the following audit work:
  - Initial systems reviews (ISRs) and walkthroughs of the key controls identified for each financial system.
  - Substantive testing of transactions, focusing on income, expenditure and staff costs, staff expenses and journal entries.
  - Review of arrangements in place for financial management, financial sustainability, governance and transparency, and value for money. This included reviewing workforce planning arrangements, budget monitoring arrangements, the approach to medium to long-term financial planning and a follow-up of our 2010 'Role of Boards' report. As part of this work, we placed reliance on internal audit's review of corporate governance.
7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## Findings

### Review of key financial systems

8. We reviewed the operation of key financial systems, including payroll, cash and bank, accounts payable (including staff expenses) and accounts receivable. We identified the following points:

- **General ledger:** The general ledger access rights allow members of the finance team to prepare and authorise journal entries. As such, there is scope for error in the financial statements or manipulation of finances. Our substantive testing of 20 journals did not identify any issues.
- **Banking:** A balance of £114,525 is held by solicitors in a Trust Fund account on behalf of VisitScotland to accommodate a legislative requirement for potential compensation under Package Holiday Regulations. This account is currently inactive and the balance may be in excess of that required for operational purposes. In our view, holding cash in an inactive account does not represent value for money. VisitScotland should consider using any unrequired excess for general operations, or close the account if no longer required.
- **Staff expenses:** 207 VisitScotland staff (39 per cent of permanent staff) have a company credit card for travel and subsistence purposes. We have been advised that the majority of these staff travel on a regular basis and management considers they need a credit card. In our view, this is a relatively high proportion of staff and management may wish to review this position to ensure it reflects VisitScotland's business needs while minimising the potential for error or misuse. We found that effective controls over staff expenses are in operation.

9. We also carried out substantive testing on transactions for the first ten accounting periods of 2016/17. Our testing focused on income, expenditure and staff costs and did not identify any issues with the accuracy of transactions.

### Financial management

10. We concluded that sound budget monitoring arrangements are in place.

Financial information provided to the Board includes finance and performance measures reports, which provide an appropriate level of information and support effective scrutiny.

11. There remains uncertainty over whether VisitScotland will receive £7.9m of funding via the European Regional Development Fund (ERDF). The organisation is working on the prudent assumption that it will not receive any of the expected ERDF funds in 2016/17, initially forecast at £3.4m. VisitScotland has curtailed uncommitted ERDF spending and is reviewing all other spending commitments to ensure any shortfall in this area of income is mitigated before the year end.

### Financial sustainability

12. VisitScotland does not have a medium or long-term financial strategy. While the organisation has a clearly defined strategic direction, without a financial strategy to support the organisation's corporate and operational plans there is a risk that VisitScotland does not have a complete picture of its financial position and the challenges it faces in meeting its objectives in the medium to longer term. VisitScotland has recognised a risk that income from sources other than the Scottish Government may not be sufficient for the organisation to meet its current long-term objectives.

13. As outlined in Audit Scotland's report, Scotland's Public Finances: A follow-up audit, published in June 2014, it is good practice for public bodies to develop a long-term financial strategy covering a five to ten-year period. This can help identify problems with affordability at an early stage. The strategy should

include scenario planning, whereby assumptions about different levels of future income, expenditure and activity are made, and options are outlined based on each scenario.

### Workforce planning

14. VisitScotland does not currently have an organisation-wide workforce plan. It is developing a People Strategy 2016-20, which aligns with the Scottish Government's Fair Work Framework and has been approved by the Board. The People Strategy contains a number of initiatives such as improving internal talent management, youth employment and equality of opportunity. But it does not analyse and forecast the organisation's workforce needs as a whole over the next 3-5 years, or include actions to achieve the desired workforce structure. There remains a risk that VisitScotland may be unable to deliver its corporate strategy due to skills gaps in key areas. It has recognised a significant risk that it may not be able to retain or attract staff with appropriate skills for delivering core services, and has taken actions to mitigate this risk.
15. As noted in Audit Scotland's good practice guide, Scotland's public sector workforce, published in March 2014, workforce plans should analyse and forecast the organisation's workforce needs over the next 3-5 years. They should support the achievement of the organisation's corporate objectives and bring together the plans of individual service departments to ensure the organisation has sufficiently skilled staff in place to deliver its key priorities.

### 'Role of Boards' follow-up

16. We completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of board papers, internal audit reports, discussions with key officers and attendance at the Audit & Risk Committee meetings. From this work we found:
  - Members demonstrate a good level of commitment to their roles and responsibilities, and the arrangements in place support effective working relationships between the Board and the senior management team.
  - Information provided to members is of a good standard, and there is evidence that the Board effectively scrutinises policy decisions and performance.
  - Detailed Board minutes are published on VisitScotland's website but Board papers are not available to the public. While any commercially sensitive information may have to be exempt from publication, VisitScotland may wish to consider making papers publicly available to increase transparency.
  - Internal audit concluded that, overall, corporate governance arrangements are robust and in line with good practice. But it also identified some areas for improvement such as self-evaluation, consideration of committee minutes, skills matrix review and succession planning, including focus on Board members' training needs. VisitScotland is in the process of implementing internal audit's recommendations.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
<b>Key financial systems</b>		
<p><b>Journal entries</b></p> <p>The general ledger access rights allow key members of the finance team to prepare and authorise journal entries. There is scope for error or manipulation.</p>	<p>This is noted. VisitScotland has in place robust controls surrounding the finance operation to mitigate any potential for such error. Notwithstanding VisitScotland has amended the General Ledger permissions of the senior members of the finance team so that no individual can input and post a journal.</p>	<p>Head of Finance</p> <p>Implemented</p>
<p><b>Balance held on behalf of VisitScotland</b></p> <p>A balance of £114,525 is held by solicitors in a Trust Fund account on behalf of VisitScotland to accommodate a legislative requirement for potential compensation under Package Holiday Regulations. This account is currently inactive and the balance may be in excess of that required for operational purposes. In our view, holding cash in an inactive account does not represent value for money.</p>	<p>Our compliance with this legislative requirement, which follows legal advice, is under review and will be completed before the year end.</p>	<p>Audit &amp; Compliance</p> <p>March 2017</p>
<p><b>Staff expenses - credit cards</b></p> <p>207 VisitScotland staff (39 per cent) have a company credit card for travel and subsistence purposes. In our view, this is a relatively high proportion of staff, management may wish to review this position to ensure it reflects VisitScotland's business needs while minimising the potential for error or misuse.</p>	<p>The only staff, other than senior management, allowed to have cards are those from within those departments involved in considerable domestic &amp; international travel (Marketing, Events, Quality Assurance, etc.) The number of cards in issue, and all card expenditure (as well as domestic/ international cash expenses), are tightly controlled on a monthly basis, and cards removed when no longer required. In the circumstances, therefore, it is not considered necessary to reduce the allocation at this juncture.</p>	<p>Audit &amp; Compliance</p> <p>To be kept under review</p>
<b>Wider dimension</b>		
<p><b>Financial sustainability</b></p> <p>VisitScotland does not have a medium or long-term financial strategy in place. There is a risk that VisitScotland does not have a complete picture of its financial position and the challenges it faces in meeting its objectives in the medium to longer term.</p>	<p>Over the past year VisitScotland has already started to establish definitive organisational strategies with due consideration of the impact of 3 year financial planning within the PID process. This approach to the longer term development of financial considerations, when complete, will enable us to create specific scenario plans for future years.</p>	<p>Head of Finance</p> <p>December 2017</p>

Issue identified	Management response	Responsible officer and target date
<p><b>Workforce planning</b></p> <p>VisitScotland does not currently have an organisation-wide workforce plan. There is a risk that VisitScotland may be unable to deliver its corporate strategy due to skills gaps in key areas.</p>	<p>VisitScotland has developed a project based approach to workforce planning. This has ensured that strategies are developed, workforce implications are assessed and appropriate workforce plans developed. Significant reductions in the workforce have been successfully achieved using this approach, including the restructuring of the Marketing Dept; downsizing and re-aligning management posts in the Partnerships directorate, and the closing of the VisitScotland call centre. For the next 3 - 5 years VisitScotland has developed a People Strategy 2016-20, as approved by the Board, which identifies all the key staffing issues for year one, and in outline for succeeding years. The detailed 2017/18 Strategy is currently under development.</p>	<p>Head of HR</p> <p>To be kept under review</p>
<p><b>Role of Boards - Board papers</b></p> <p>Detailed Board minutes are published on VisitScotland's website but Board papers are not available to the public. Making papers publicly available would increase transparency.</p>	<p>The decision as to whether to make Board papers publicly available, not least any that may be considered to be commercially sensitive, is a matter for the Board.</p>	<p>VisitScotland Board</p> <p>To be kept under review.</p>
<p><b>Role of Boards - internal audit's review of corporate governance</b></p> <p>Internal audit's review of corporate governance identified some areas for improvement such as self-evaluation, consideration of committee minutes, skills matrix review and succession planning, including focus on Board members' training needs. VisitScotland is in the process of implementing internal audit's recommendations.</p>	<p>As indicated, VisitScotland is in the process of attending to the recommendations as outlined in the Internal Audit report.</p>	<p>Chair of Board.</p> <p>In accordance with the timetable as per Internal Audit's report.</p>

**17.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to VisitScotland.

**18.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# VisitScotland

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