

VisitScotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for VisitScotland and the Auditor General for Scotland

12 October 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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Key messages

Audit of the 2016/17 financial statements

- 1 VisitScotland's financial statements for 2016/17 give a true and fair view of the state of its affairs as at 31 March 2017 and of its net expenditure for the year.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The other information in the annual report and financial statements is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4 VisitScotland managed its 2016/17 budget effectively and operated within its Grant in Aid resource limits.
- 5 Systems of internal control operated effectively in 2016/17, with some recommendations for improvement.
- 6 VisitScotland participates in the National Fraud Initiative. Management investigated all matches and reported the results to the Audit and Risk Committee by the end of September 2017.

Financial sustainability

- 7 VisitScotland demonstrates a good understanding of the financial challenges it faces, including a budget gap in 2017/18 due to the withdrawal of European funding. While VisitScotland has developed components which support longer-term financial planning, it has yet to develop an overarching long-term financial strategy.
- 8 VisitScotland is taking steps to seek a satisfactory resolution to on-going pension liability uncertainties. Board members are regularly updated on progress.
- 9 The implementation of an organisation-wide workforce plan would support the achievement of the organisation's corporate objectives.

Governance and transparency

- 10 VisitScotland has appropriate arrangements in place to support effective governance, accountability and scrutiny.
- 11 VisitScotland is open and transparent in the way it conducts its business. With increasing public expectations for more openness in the conduct of public business, VisitScotland should keep this under review.

Value for money

- 12 Value for money is a key element of our audit approach. In 2016/17, the first year of our audit appointment, we did not identify any significant value for money risks during our planning and therefore we did not undertake any specific value for money work this year.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of VisitScotland.

2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2017 meeting of the Audit & Risk Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of VisitScotland's main financial systems and governance arrangements with the findings reported to the Audit and Risk Committee on 31 March 2017
- an audit of VisitScotland's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- wider dimension work on VisitScotland's arrangements for financial management, financial sustainability and governance and transparency, including a follow-up of our 'Role of Boards' national report, published in September 2010.

4. VisitScotland is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the Board to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.

6. These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within VisitScotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 19\)](#). It sets out specific recommendations, responsible officers and dates for implementation.

9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both, the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of VisitScotland for 2016/17 give a true and fair view of the state of its affairs as at 31 March 2017 and of its net expenditure for the year.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and financial statements is consistent with the financial statements and prepared in accordance with legal requirements.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 12 October 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 19 July 2017 in line with the agreed timetable. The draft narrative sections of the Performance Report (pages 1 to 18) were provided on August 14 as agreed.

16. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided effective support to the audit team which helped ensure the annual report and financial statements audit process ran smoothly.

Risk of material misstatement

17. [Appendix 2 \(page 20\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both, the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and accounts, in accordance with our usual practice, we reviewed our original materiality calculations and revised them in line with VisitScotland's 16/17 outturn to ensure adequate coverage during our testing. Our revised materiality levels are summarised in [Exhibit 2](#), below.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£533,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£320,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£25,000

Source: Audit Scotland

Evaluation of misstatements

21. A number of presentational adjustments and one monetary adjustment to the accounts that affected the net expenditure were identified during our audit. These were discussed with senior finance officers and details of the resolutions to significant items are set out in [Exhibit 3](#).

22. The impact of the monetary amendment processed in the accounts was a reduction to gross expenditure of £112,000, with a corresponding increase to non-current assets, as a result of the non-capitalisation of non-refundable VAT.

23. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels. For the reasons identified in [Exhibit 3](#), management do not propose to adjust for item 3 (value £57,000). We are satisfied with the explanations received, and that the impact on the financial statements is not material. Further audit procedures were not required because this is an isolated misstatement which is not indicative of systematic errors within the account area, or more pervasively within the financial statements

Significant findings from the audit

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Going concern</p> <p>Auditors are required to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. In accordance with International Accounting Standard 19 (IAS19 - Employee Benefits), VisitScotland has recognised its share of the net liabilities of the pension schemes available to staff. This has resulted in a net liabilities position of £34.745 million on its statement of financial position at the year end.</p>	<p>This accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by Grant in Aid from the Scottish Government. VisitScotland management has acknowledged the need to do more to address the pensions deficit and are currently considering a range of options.</p> <p>We agree with management's view that it is appropriate to prepare the 2016/17 financial statements on a going concern basis.</p>
<p>2. Capitalisation of irrecoverable VAT</p> <p>VisitScotland had not capitalised irrecoverable VAT on non-current asset additions. Under IAS 16, non-refundable purchase taxes are to be included within the initial recognised cost of an asset. Management estimated that the VAT which should have been capitalised was £112,000. As the correct accounting would have resulted in VisitScotland exceeding its capital budget, it sought and received the Scottish Government's approval for a transfer between budget categories (from Resource DEL to Capital DEL), thereby remaining within its budget limits.</p>	<p>Management agreed to correct the accounts to correct this misstatement.</p>
<p>3. Revaluation reserves</p> <p>Initial working papers supplied by management indicated revaluation reserve debit (negative) balances relating to non-current assets acquired upon the amalgamation of tourist boards in 2006. Under IAS 16, once a revaluation reserve relating to an asset is exhausted, any impairment or downward valuation should be taken in full to the Statement of Comprehensive Net Expenditure. Management reviewed its accounting records, and concluded that to bring the reserves balances into line with IAS16 would require an adjustment of around £57,000 between the revaluation reserve and the general reserve.</p>	<p>We are content that this matter does not materially affect the 2016/17 accounts. Management has decided not to amend the 2016/17 accounts and will make the correcting entries in 2017/18, to coincide with other entries necessary to reflect a change in status for those assets.</p>

- 25.** On 12 October 2017, VisitScotland formally announced the next phase of its information strategy. This represents further development of a key element of VisitScotland's business and is expected to deliver more information to more people through more channels, using a combination of fewer of traditional visitor centres, more face to face engagement, increased outreach activity, a greater number of partnerships, and increased on-line provision. VisitScotland estimated the costs associated with this strategy to be around £0.5 million with the expected pay-back period of approximately two years. This is disclosed as a non-adjusting event after the reporting period in the notes to the financial statements. We considered this matter as part of our procedures leading to the date of signing the independent auditor's report and concluded that the disclosure is appropriate.

Part 2

Financial management



Main judgements

VisitScotland managed its 2016/17 budget effectively and operated within its Grant in Aid resource limits.

Systems of internal control operated effectively in 2016/17, with some recommendations for improvement.

VisitScotland participates in the National Fraud Initiative. Management investigated all matches and reported the results to the Audit and Risk Committee by the end of September 2017.

Financial performance in 2016/17

26. The main financial objective for VisitScotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

27. VisitScotland reported an outturn of £43.969 million, remaining within its overall budget for 2016/17 with an underspend of £0.025 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	46.240	43.194	43.182	(0.012)
Capital DEL	0.7	0.8	0.787	(0.013)
Total DEL	46.940	43.994	43.969	(0.025)

Source: Scottish Government

28. During the year, the Scottish Government increased VisitScotland's Resource DEL by a total of £2.782m for expenditure relating to specific events, such as the upcoming Solheim Cup and 2018 Year of Young People. This was offset by a reduction of £5.840m in the Autumn Budget Revision largely in relation to a Strategic Forum Savings allocation, creating a net resource reduction of £3.058m.

29. As outlined in [Exhibit 3](#), a budget change of £100,000 was sought from the Scottish Government and approved in order to cover the capitalisation of irrecoverable VAT on non-current assets. This had the effect of keeping VisitScotland within its capital budget allocation.

Internal controls

30. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that VisitScotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

31. Our findings were included in the interim audit report presented to the Audit and Risk Committee on 31 March 2017. We concluded that VisitScotland's systems of internal control were effective. No significant internal control weaknesses were identified during the audit which could affect VisitScotland's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We made recommendations in our interim report to further improve controls.

Budget monitoring

32. We reviewed VisitScotland's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at the Audit and Risk Committee, we confirmed that senior management and members receive an appropriate level of financial and performance information.

33. Internal audit reviewed budgetary processes in place during 2016/17 and concluded that VisitScotland had strong controls in place for budget-setting and monitoring, including clear links between the activities budgeted for and the overall strategic objectives of the organisation. Internal audit also identified some minor areas for improvement which management agreed to implement. These included the need for VisitScotland to implement a standard form for requesting transfers between budgets and ensuring the finance team has sole responsibility and authority to make budget transfers.

34. At the time of setting the 2016/17 budget, VisitScotland anticipated £3.4m in European Regional Development Fund (ERDF) income. Despite receiving a grant award letter in May 2016, VisitScotland received notification in April 2017 that the ERDF income would not be forthcoming. In anticipation, management had implemented mitigating actions such as curtailing uncommitted ERDF funds and reviewed all committed expenditure to minimise exposure. In doing so, commitments of around £1 million have been transferred to 2017/18.

Prevention and detection of fraud and irregularity

35. We assessed VisitScotland's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the counter-fraud strategy.

36. We concluded that VisitScotland had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

37. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error ([Exhibit 5](#)).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 5

Total number of matches



465

Number recommended for investigation



83

Completed/closed investigations



465

38. VisitScotland engages with the NFI exercise by submitting the required data sets, investigating matches and updating the NFI website. Management investigated all 465 matches and reported the results to the Audit and Risk Committee by the end of September 2017. VisitScotland may wish to consider revising the fraud policy and response plan to include participation in the NFI exercise.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

39. Based on our review of the evidence we concluded that VisitScotland has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention

40. We have reviewed the arrangements in place to maintain standards of conduct, including the employee handbook and members' Code of Conduct. There are established procedures for preventing and detecting any breaches of these standards, including any instances of corruption.

Part 3

Financial sustainability



Main judgements

VisitScotland demonstrates a good understanding of the financial challenges it faces, including a budget gap in 2017/18 due to the withdrawal of European Regional Development Funding. While VisitScotland has developed components which support longer-term financial planning, it has yet develop an overarching long-term financial strategy.

VisitScotland is taking steps to seek a satisfactory resolution to ongoing pension liability uncertainties. Board members are regularly updated on progress.

The implementation of an organisation-wide workforce plan would support the achievement of the organisation's corporate objectives.

2016/17 financial position

41. The Statement of Financial Position summarises what is owned and owed by VisitScotland. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

42. The financial statements show that VisitScotland has net liabilities of £34.745 million, an increase of £3.392 million largely attributable to increases in pension scheme liabilities. VisitScotland is a participant in the British Tourist Boards' Pension Scheme and the Local Government Pension Scheme and the combined pension schemes overall deficit position shows that VisitScotland's pension liabilities exceeded assets by £36.129 million.

Financial planning

43. VisitScotland initially set a balanced budget for 2017/18, showing total expenditure of £54.8 million, a £3.6 million increase on the 2016/17 outturn. Following the withdrawal of European Regional Development Fund funding, VisitScotland now faces a budget gap of £0.5m in 2017/18. Management and the Board are reviewing options to balance the 2017/18 budget.

44. In March 2017, management submitted a case to the Scottish Government outlining the unfunded pressures and challenges faced by VisitScotland in the period from 2017 to 2021. In June 2017, the Scottish Government confirmed a Grant in Aid funding allocation of £43.2 million, a small reduction of 0.065 million from 2016/17.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Medium to long-term financial planning

45. We reviewed VisitScotland's financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. We recognise that VisitScotland is mainly funded from the Scottish Government through Grant in Aid (85%) and this is set on a year-on-year basis by the Scottish Government. This should not preclude VisitScotland from preparing medium to long-term financial plans based on sensitivity analysis and scenario planning for possible budget changes.

46. We reported in our interim report that VisitScotland did not have a medium or long-term financial strategy. Since then, VisitScotland has developed components which support longer-term financial planning but it has yet to develop an overarching long-term financial strategy. While the organisation has a clearly defined strategic direction, and the Board and management demonstrate a good awareness of the challenges facing the organisation, without an overarching 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.

Recommendation 1

VisitScotland should develop an overarching medium to long-term financial strategy to 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.

47. The latest triennial valuation for the British Tourist Board pension scheme at 1 April 2015 has not yet been agreed and there is a risk that annual employer contributions may increase and therefore result in increased financial pressures for VisitScotland. Management are in discussions with the British Tourist Board Pension Scheme, the Pension Regulator and the Scottish Government in order to minimise the impact of any future significant financial pressures which may occur. The Scottish Government has provided VisitScotland with a letter of support for the British Tourism Board pension scheme.

48. VisitScotland participates in several Local Government Pension Schemes, the majority of which have reducing membership among existing staff. There is a risk that significant liabilities could become payable when there are no longer any active members paying into the schemes. The Scottish Government has provided VisitScotland with signed guarantees for their pension liabilities with all Local Government Pension Schemes.

Workforce planning

49. As reported in our interim report, VisitScotland does not currently have an organisation-wide workforce plan. It has developed 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.

50. 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.

Recommendation 2

An organisation-wide workforce plan would 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.

Part 4

Governance and transparency



Main judgements

VisitScotland has appropriate arrangements in place to support effective governance, accountability and scrutiny.

VisitScotland is open and transparent in the way it conducts its business. With increasing public expectations for more openness in the conduct of public business, VisitScotland should keep this under review.

Governance arrangements

51. As part of the wider review of governance arrangements across the public sector, 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 and Risk Committee meetings. We concluded that, overall, VisitScotland has appropriate arrangements in place that support effective governance, accountability and scrutiny. As reported in our interim report presented to the Audit and Risk Committee in March 2017, 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.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

The annual governance statement

52. Under the Treasury's Financial Reporting Manual (FRM), VisitScotland must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

53. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

54. We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers.

Internal audit

55. Internal audit provides VisitScotland and its Accountable Officer with independent assurance on the organisation's overall risk management, internal control and corporate governance processes.

56. The internal audit function is provided by a firm of accountants. We carried out a review of the adequacy of internal audit and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

57. To avoid duplication of effort, we place reliance on the work of internal audit wherever possible. In planning our audit work, we considered the findings of internal audit's reports on budgeting and budgetary control, fixed assets and European Regional Development Fund (ERDF). As part of our wider dimension work, we considered internal audit's reviews of other areas including corporate governance, regulatory compliance and the post-implementation review of VisitScotland's website.

Risk management

58. VisitScotland's risk management arrangements are described in the Corporate Governance Report. We reviewed the risk management arrangements in place, including the risk register and Audit and Risk Committee papers on risk management. We concluded that the arrangements in place are effective and reporting arrangements are appropriate.

Transparency

59. Transparency means that the stakeholders, including the public, have access to understandable, relevant and timely information about how the board/equivalent is taking decisions and how it is using resources. Detailed Board minutes are published on VisitScotland's website but no other papers or minutes are published. As reported in our interim report, presented to the Audit and Risk Committee in March 2017, VisitScotland resolved to keep the issue under review, and responded that 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. VisitScotland advised that the Board would consider this matter in October 2017.

60. With increasing public expectations for more openness in the conduct of public business, VisitScotland should consider if there is scope to enhance transparency and should keep this area under review. This could, for example, include reviewing the availability of Board papers and committee papers and minutes.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page no.	Issue/risk	Recommendation	Agreed management action/timing
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15

1. Financial strategy

While VisitScotland has developed some components which support longer-term financial planning, it has yet to develop an overarching medium to long-term financial strategy.

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.

A medium to long-term financial strategy would help identify problems with affordability at an early stage. The strategy should include scenario planning, whereby assumptions about difference levels of future income, expenditure and activity are made.

Agreed.

Head of Finance.
31 March 2018.

16

2. Workforce planning

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.

An organisation-wide workforce plan would 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.

Agreed.

Head of Human Resources.
31 March 2018.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls (example)</p> <p>ISA 240 requires that auditors consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure has been accounted for in the correct financial year.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p>	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>
<p>2 Risk of fraud over income</p> <p>ISA240 requires auditors to presume a risk of fraud where income streams in addition to Scottish Government funding are significant. VisitScotland receives approximately 20% of income from sources other than Scottish Government funding, including retail and commercial income and European grants. The extent and nature of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> <p>Detailed cut-off testing of income streams.</p> <p>Detailed analysis of EU income.</p> <p>Consideration of internal audit's review of budgeting and budgetary control.</p>	<p>Our review of financial systems did not identify any issues with VisitScotland's revenue recognition procedures.</p> <p>We substantively tested a sample of income transactions. No issues were identified.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material</p>	<p>Completion of 'review of the work of an expert' for the professional valuers.</p> <p>Review of accounting</p>	<p>We reviewed the valuations of non-current assets and IAS 19 disclosures, which were prepared by management's experts.</p>





















Audit Risk	Assurance procedure	Results and conclusions
<p>account areas of pensions and non-current assets. VisitScotland accounts for its participation in the British Tourism Board's Pension Scheme and Local Government Pension Schemes in accordance with IAS 19 Retirement benefits, using valuation reports prepared by VisitScotland actuaries. There is an inherent risk with the determination of pension charges due to the extent of assumptions actuaries use in calculations and the impact they can have on the financial statements. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>estimates and pension disclosures.</p> <p>Focused substantive testing of key areas including data VisitScotland provides to its actuaries.</p>	<p>We found these judgements to be sound and, as such, were able to place reliance on the experts' valuations.</p>
<p>4 Narrative disclosures</p> <p>For 2016/17 there is a new requirement for auditors to give an opinion on whether the management commentary and governance statement have been prepared in accordance with applicable legal requirements for all audited bodies. There is a risk that appropriate information is not available to meet these requirements.</p>	<p>Review the disclosures in the performance and accountability reports.</p>	<p>We did not identify any areas where the disclosures were not in compliance with applicable accounting and legal requirements.</p>
<p>5 Expenses</p> <p>There is a risk that financial controls and policies in place for expenses may not prevent or detect errors or deliberate manipulation.</p>	<p>Consideration of VisitScotland review of expenses controls and reporting.</p> <p>Focused substantive testing of expenses.</p>	<p>Our review of controls over expenses and focused testing of individual claims did not identify any issues.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 Financial sustainability</p> <p>VisitScotland's grant-in-aid fluctuates from year to year, depending on additional Scottish Government's funding for delivering major events such as the Ryder Cup. Excluding this additional funding, VisitScotland's core grant-in-aid has been broadly similar in cash terms since 2014/15 - £39.7 million in 2014/15, £42.5 million in 2015/16 and £40.4 million in 2016/17. In 2017/18, it</p>	<p>Review of approach to longer-term financial planning, including any medium to long-term forecasting or scenario planning.</p>	<p>VisitScotland has no medium to long-term financial strategy in place, refer paragraph 46.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>is expected to remain at £40.4 million, representing a 1.5 per cent decrease at 2016/17 prices. VisitScotland has recognised a risk that income from other sources may not be sufficient for the organisation to meet its long-term objectives.</p>		
<p>7 Pensions liabilities</p> <p>VisitScotland participates in twelve Local Government Pension Schemes, the majority of which have reducing membership that could ultimately result in their closure. This combined with uncertainty around the valuation of the British Tourism Board pension scheme, means that there is a risk that pension liabilities will increase and therefore result in significant increase in annual employer contributions for VisitScotland.</p>	<p>Monitor developments with pension schemes, including any liabilities and guarantees.</p>	<p>VisitScotland is taking steps to seek a satisfactory resolution to ongoing pension liability uncertainties, refer paragraphs 47 and 48.</p>
<p>8 Financial management - year end outturn</p> <p>The approved budget for 2016/17 shows income and expenditure of £53.1 million. Income includes £3.4 million of ERDF grant but, as at November 2016, VisitScotland has not yet received this funding. Grant-in-aid may also be subject to change through the Autumn and Spring Budget Revisions. While financial monitoring reports for 2016/17 project a year-end breakeven position overall, there is a risk that VisitScotland will not break even in 2016/17.</p>	<p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>Review VisitScotland's achievement of outturn at year end.</p> <p>Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Consideration of internal audit's review of budgeting and budgetary control.</p>	<p>VisitScotland remained within its overall budget for 2016/17 with an underspend of £0.025 million.</p> <p>Following the withdrawal of ERDF funding, VisitScotland now faces a budget gap of £0.5m in 2017/18. Management and the Board are reviewing options to balance the 2017/18 budget. Refer paragraph 43.</p> <p>The results of our review of budgeting and budgetary control are contained in paragraphs 32 to 34.</p>
<p>9 Workforce planning</p> <p>VisitScotland does not have an organisation-wide workforce plan. It has recognised a significant risk that it may not be able to retain or attract staff with appropriate skills for delivering core services. There is a risk that VisitScotland is unable to deliver its corporate strategy due to skills gaps in key departments.</p>	<p>Monitor progress with the preparation of the organisation-wide workforce plan.</p>	<p>We recommend the implementation of an organisation-wide workforce plan in paragraph 50.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Reports which may be of interest to VisitScotland:

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Managing new financial powers: an update](#) – March 2017

VisitScotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk