

VisitScotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

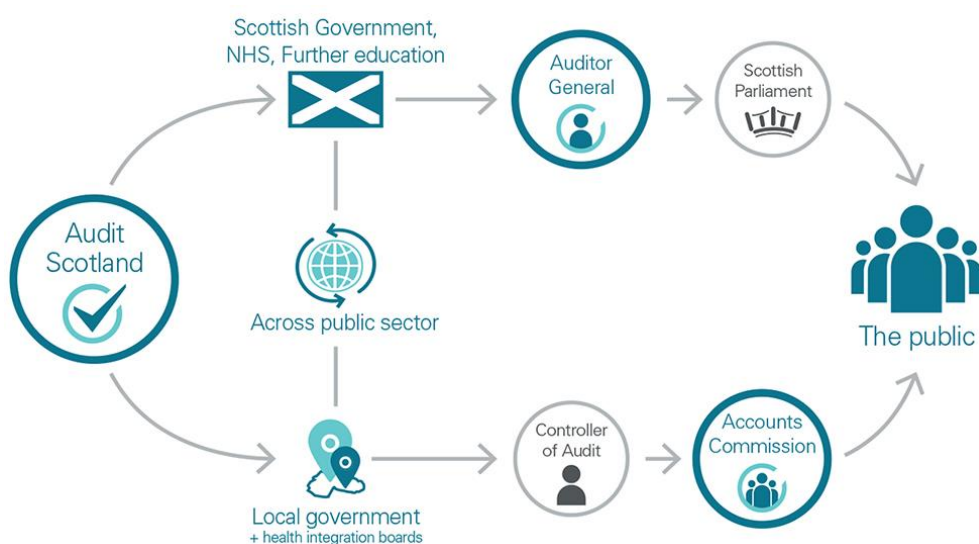
Prepared for VisitScotland and the Auditor General for Scotland

August 2019

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

2018/19 annual report and financial statements

- 1 The financial statements of VisitScotland give a true and fair view of its financial position at 31 March 2019 and its net expenditure for 2018/19.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement are consistent with the financial statements and meet the relevant requirements.

Financial management

- 4 VisitScotland has effective financial management arrangements, and it remained within its overall resource budget for 2018/19.
- 5 Systems of internal control operated appropriately and effectively in 2018/19, with scope for improvements in some areas.

Financial sustainability

- 6 VisitScotland has effective financial planning arrangements and has approved a balanced budget for 2019/20.
- 7 Work is underway to develop longer-term financial and workforce plans; the Enterprise Resource Planning System will support this work.
- 8 VisitScotland is seeking resolutions to financial uncertainties related to its participation in pension schemes.

Governance and transparency

- 9 VisitScotland has effective governance that supports scrutiny of decisions, with scope to enhance openness and transparency.
- 10 There is scope for further improvement of the annual report, to provide clearer links between funding and what this has achieved.

Value for money

- 11 VisitScotland demonstrates good practice by assessing Best Value and in reporting findings.
- 12 VisitScotland has appropriate performance management arrangements, with some areas for further improvement.

Introduction

1. This report summarises the findings from our 2018/19 audit of VisitScotland.

2. The scope of our audit was set out in our Annual Audit Plan presented to the meeting of the Audit & Risk Committee on 29 August 2019. This report comprises the findings from:

- an audit of VisitScotland's annual report and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit 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 2018/19 have been:

- a review of the VisitScotland's main financial systems
- an audit of VisitScotland's 2018/19 annual report and financial statements including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions of public audit.

Adding value through the audit

4. We add value to VisitScotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- providing preliminary views on aspects of accounting treatment and of the information required in annual reports, to help inform VisitScotland's decisions about how to account for and disclose matters in its annual report and financial statements.

5. In so doing, we aim to help VisitScotland promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

6. VisitScotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and financial statements that are in accordance with the accounts direction from the Scottish Ministers. The VisitScotland annual report and financial statements includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and Parliamentary Accountability Report)
- Financial statements and supporting notes.

7. VisitScotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and financial statements. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual report and financial statements and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £70,800 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both VisitScotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and financial statements



Main judgements

The financial statements of VisitScotland give a true and fair view of the state of the affairs of VisitScotland at 31 March 2019 and of its net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

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

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

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

Audit opinions on the annual report and financial statements

16. The annual report and financial statements for the year ended 31 March 2019 were approved by the board on 5 September 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and financial statements for audit

18. We received the financial statements for audit on 8 July 2019, with the performance report and the accountability report received on 19 July, in line with the agreed timetable. As in previous years this approach had been agreed in

advance. We will continue to review this approach with management to ensure the audit process is as efficient as possible, from VisitScotland's and our perspectives.

19. The working papers provided with the unaudited financial statements were of an appropriate standard and finance staff provided good support to the audit team. During the audit, we identified some minor mapping and coding issues within the new Oracle Enterprise Resource Planning System (ERPS) and related working papers. Finance recognise this and have agreed to address this in 2019/20.

Risk of material misstatement

20. [Appendix 2](#) provides a description of those assessed audit risks of material misstatement in the annual report and financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these audit risks.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. On receipt of the unaudited annual report and financial statements we reviewed our materiality calculations and updated our materiality values as shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£0.555 million
Performance materiality	£0.360 million
Reporting threshold	£0.025 million

Source: VisitScotland Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

25. One significant finding was identified from the audit of the financial statements. This was as result of an event after the reporting period relating to a legal ruling. VisitScotland was finalising its financial statements for audit at this point. An accounting adjustment was made during the audit to reflect this ([Exhibit 3](#)).

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Pension liabilities following McCloud judgement</p> <p>A legal ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements (referred to as the 'McCloud case'). A final judgement on 27 June 2019 significantly increased the probability of future liabilities for public bodies that participate in the Local Government Pension Scheme, including VisitScotland.</p> <p>As a consequence of the judgement, VisitScotland reassessed the position, the related accounting treatment and the impact on its financial statements.</p>	<p>VisitScotland sought advice from its actuary and concluded that a provision should be created.</p> <p>The provision (titled 'McCloud'), increased Annually Managed Expenditure (AME) by £110,000 and was managed within existing budget. VisitScotland's actuary provided this as an estimate of the likely increase to VisitScotland's LGPS pension liabilities.</p> <p>Management concluded that as this was not material there was no requirement to request a full IAS 19 valuation at this stage but that it would be prudent to provide for this amount.</p> <p>We were satisfied with this approach and that the actuary's assumptions were reasonable.</p>

Source: Audit Scotland

How we evaluate misstatements

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers. There were no material adjustments to the unaudited annual report and financial statements arising from our audit, and there were no material unadjusted errors.

27. During the audit we noted a misstatement in the movement of £108,000 between the Revaluation Reserve and General Reserve in the accounts in relation to the transfer of depreciation. The working papers were found to be correct, but the position had not been reflected in the accounts. This had no net impact on total equity with a respective over and understatement of the reserves. VisitScotland corrected the accounts.

Other findings

28. Our audit identified several presentational and disclosure adjustments which were discussed with management. These were all adjusted and are reflected in the audited financial statements.

29. There is one additional matter which has the potential to affect VisitScotland's pension liabilities in future years. The courts have ruled that UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). VisitScotland's actuaries expect this to have low impact on the LGPS schemes and the general expectation is that a 'trigger event' is yet to occur. VisitScotland has disclosed an unquantifiable contingent liability as a result.

30. Our 2017/18 annual audit report highlighted that we had identified differences between the non-current asset register and the financial ledger. Management

undertook a detailed review of the register during 2018/19 to address this. This resulted in 72 entries on the register with a Net Book Value of around £1,000 being written off. Items included historic fixtures and fittings and leasehold improvements which could no longer be traced. We are satisfied that this has been accounted for correctly in the financial statements. We also acknowledge the significant amount of work undertaken by management to complete this review.

Follow up of prior year recommendations

31. We have followed up actions agreed in 2017/18 to assess progress with implementation. Two agreed actions were raised in 2016/17 relating to medium to longer-term financial strategy and workforce planning. Work to deliver this is ongoing. We recognise that VisitScotland has made progress with these actions during 2018/19. We understand that Phase two of the ERPS project during 2019/20 will support further developments in longer-term resource planning.

32. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

VisitScotland has effective financial management arrangements in place and it remained within its overall resource budget for 2018/19

Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvements in some areas

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

Financial performance in 2018/19

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

34. VisitScotland has reported an outturn of £50.418 million remaining within its overall budget for 2018/19 with an underspend of £0.001 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#)

Exhibit 4 Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Capital receipts applied	Outturn £m	Over (under) spend £m
Resource DEL	46.959	46.959	-	46.958	(0.001)
Capital DEL	4.0	3.0	0.46	3.46	-
Total cash DEL	50.959	49.959	0.46	50.418	(0.001)
Non-cash DEL	1.580	1.580	-	1.02	(0.56)
Annually Managed Expenditure (AME)	5.0	5.0	-	4.824	(0.176)

Source: 2018/19 VisitScotland annual report and financial statements and Scottish Government

Note: Non-cash DEL and AME are less predictable and do not involve the transfer of cash.

2018/19 financial position

35. 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 assets.

36. The financial statements show that VisitScotland has:

- Net liabilities of £27.908 million, a reduction of £5.242 million from 2017/18.
- Total assets of £15.134 million, an increase of £1.929 million from 2017/18. This is largely due to improvements made to some iCentres and the ERPS system coming into use.
- Pension liabilities have reduced from £34.919 million in 2017/18 to £30.305 million, reflecting actuarial valuations.

Budgetary processes

37. VisitScotland approved a balanced budget for 2018/19 showing total expenditure of £54.85 million, a 3.6% increase on the 2017/18 outturn (£52.94 million). Core resource Grant-in-Aid reduced from £40.4million in 2017/18 to £39.6million in 2018/19 (a reduction of 1.98%). VisitScotland received additional ringfenced funding of £7.359 million throughout the year to deliver major sporting events in 2019 such as the Scottish Open and the European Athletics Indoor Championships.

38. We found that VisitScotland continued to provide regular, timely and up-to-date information on the financial position. This allowed board members to monitor and carry out scrutiny of aspects of the body's financial affairs.

Systems of internal control

39. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

40. We found no significant issues from this work. We made recommendations to further strengthen the control environment which were included in our management report, which was considered by the Audit & Risk Committee 28 March 2019.

Internal audit

41. We reviewed VisitScotland's internal audit arrangements and concluded we could place reliance on internal audit's work on the ERPS. This audit considered the controls in place and reconciliations undertaken to ensure that data was migrated accurately to the new financial ledger system. Internal audit did not report any weaknesses.

42. We also considered other aspects of internal audit's work, such as its review of GDPR compliance, the iCentre audit programme and preliminary findings from the non-current asset audit as part of our 2018/19 financial statements and wider dimensions audit responsibilities.

Standards of conduct for prevention and detection of fraud and error

43. Public bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

44. We reviewed the arrangements in place at VisitScotland to maintain standards of conduct including its Fraud Policy and Whistleblowing Policy. There are established procedures for preventing and detecting any breaches of these standards, including any instances of potential corruption.

45. We concluded that VisitScotland has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption.

National Fraud Initiative

46. 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 irregularity.

47. VisitScotland actively engages with the NFI exercise by submitting the required data sets, investigating matches and updating the NFI website. Results and progress are reported to the Audit & Risk Committee. NFI activity is summarised in [Exhibit 5](#). It is up to individual bodies to decide which, and how many, matches to investigate and the online application identifies high risk cases. VisitScotland completed its review of matches in July 2019. No frauds or errors were identified.

Exhibit 5 NFI activity



385

Matches



85

Recommended for
investigation



385

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

48. VisitScotland may wish to consider investigating higher risk data matches promptly after data is made available, so that potential frauds can be identified and addressed more quickly.

Dependency on key suppliers

49. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. VisitScotland has included this risk in its risk register.

50. VisitScotland is assessing the potential impact of supplier failure on its operations. It has established a threshold above which it will assess the potential impact and has improved its contract management procedures to include financial health checks, reviews of companies' accounts and liaison with finance to highlight any concerns.

51. We are satisfied that VisitScotland has taken appropriate action to mitigate the effects of key suppliers being unable to provide contracted goods and services.

ICT controls

52. VisitScotland implemented phase one of its new integrated financial, procurement and human resource system, the Oracle ERPS in December 2018. Phase one included finance, procurement and core HR functions. Phase two includes further HR modules, and the integration sales invoicing.

53. We carried out a high-level review of VisitScotland's approach to ERPS implementation and reported to the Audit & Risk Committee in March 2019. As indicated earlier in this report, as part of this, we considered internal audit's report on ERPS project governance.

54. Overall, we concluded that VisitScotland has made good progress with implementation of phase one of the ERPS. As with any major IT project, until all systems are fully integrated and all relevant staff are trained in its use, there remains a risk that working practices are inefficient, and that financial data is not transferred correctly. VisitScotland continues to manage these risks through its ERPS governance arrangements.

Part 3

Financial sustainability



Main judgements

VisitScotland has appropriate and effective financial planning arrangements in place

Work is underway to develop longer-term financial and workforce plans. Phase two of the Enterprise and Resource Planning System project should support this

VisitScotland recognises the financial uncertainties arising from its participation in its pension schemes and is actively seeking resolutions

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.

Financial planning

55. In March 2019, VisitScotland approved a balanced budget for 2019/20 showing total expenditure of £62.3 million. Grant-in-Aid resource DEL, excluding additional in-year funding, is £39.6 million (2018/19: £39.6 million). Ringfenced income is expected to total £17.488 million, a significant increase from 2018/19 (£6.6 million) as a result of Scotland hosting the Solheim Cup in 2019.

56. Income from retail, commercial and other sources is budgeted at £5.219 million, a reduction of 10.7% from the 2018/19 outturn (£5.848 million). This reduction is primarily due to reduced local authority and other partnership income, as partners are contributing less to targeted marketing campaigns. VisitScotland has set a payroll savings target of £0.8 million to help manage its budget.

57. VisitScotland has a capital budget of £3 million for 2019/20, with £1million allocated by the Scottish Government to the 'Scotland is Now' project which aims to build a digital platform to showcase Scotland as a visitor destination. As a result of a re-phasing of the Scotland is Now related capital projects, VisitScotland spent £0.8 million of this budget on core activities in 2018/19. It intends to fund some Scotland is Now projects from core budget over the following three years as a result.

58. A new accounting standard is expected to be adopted by most public sector bodies in 2020/21 concerning leases (IFRS 16). Any new lease obligations agreed in-year will have capital spend implications. At the time of our audit, VisitScotland was unable to quantify the impact of this significant change and is planning to undertake an assessment of its leasehold obligations during the second half of 2019. We are satisfied that VisitScotland made an appropriate reference to the forthcoming change in lease accounting in its 2018/19 annual report and financial statements and we will revisit this as part of our 2019/20 audit.

Changing landscape for public financial management and medium to long term financial planning

59. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

60. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

61. We reviewed the financial planning systems of VisitScotland and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long-term.

62. VisitScotland is committed to producing a longer-term financial plan but does not yet have one in place. A refresh of its overall corporate strategy is underway and, as indicated earlier in this report, the implementation of phase two of the ERPS project will allow financial and workforce planning to be more aligned to VisitScotland's strategic outcomes. This should help VisitScotland plan and prioritise the use of its resources more strategically.

63. We have previously made recommendations about the need for longer-term financial planning. We are satisfied with the approach VisitScotland is taking given the significance and timing of the ERPS. We would encourage early completion of longer-term financial plans to support financial sustainability at a time of financial pressures and uncertainties.

EU withdrawal

64. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

65. VisitScotland has carried out a range of activities in preparation for the UK's withdrawal from the European Union. These include staff communications, the formation of a Brexit group, an assessment of EU suppliers, and the issue has been identified on the risk register as a specific risk. VisitScotland has also considered what the potential impact could be as part of its short-term workforce planning.

66. In March 2019, the board reviewed a summary of the preparatory work that had been carried out to date and assessed itself against Audit Scotland guidance. Management assessed the overall preparedness of the organisation to be appropriately prepared, which would equate to 'partly prepared' in terms of Audit Scotland's criteria.

67. There remains uncertainty regarding future arrangements. In our view, VisitScotland has taken reasonable steps to prepare for the impact of EU withdrawal.

Pensions liabilities

68. VisitScotland participates in several Local Government Pension Scheme (LGPS), the majority of which have reducing membership among existing staff. There is a risk that significant liabilities can become payable when there are no active members paying into the schemes. VisitScotland has engaged with each of the LGPS funds with the aim of achieving 'ongoing' employer status in such an event. The Scottish Government has provided VisitScotland with guarantees for its LGPS related pension liabilities. VisitScotland also faces additional employer contribution costs across a few of the schemes as a result of the relatively small number of participants. VisitScotland is exploring options to help ensure value for money and longer-term sustainability.

69. Sectionalisation of the British Tourist Board (BTB) pension scheme was agreed with all parties in June 2019. This effectively ringfences VisitScotland's assets and liabilities in the scheme. As part of this process, the Scottish Government agreed to guarantee VisitScotland's obligations in the scheme, with the aim of ensuring affordable employer contribution levels. This has allowed the triennial valuation to be agreed. VisitScotland is also in negotiations with VisitBritain and other employing bodies to determine the future structure and operation of the scheme. This represents substantial movement on what has been a long-standing area of uncertainty to VisitScotland's financial sustainability.

Part 4

Governance and transparency



Main judgements

VisitScotland has appropriate and effective governance arrangements that support the scrutiny of decisions

There is scope to further improve VisitScotland's annual report and financial statements to make clearer links between what its funding has been used for and what it has achieved

Opportunities remain to increase openness and transparency in the way that VisitScotland conducts its business

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.

Governance arrangements

70. The board is responsible for establishing overall strategic direction within the policy and resources framework agreed with Scottish Ministers, and for overseeing delivery by monitoring performance against targets. The board met seven times throughout 2018/19, with two members leaving during the year and two new members joining in 2019.

Openness and transparency

71. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources i.e. money, people and assets.

72. As we have reported previously, in contrast to some other public bodies, VisitScotland board meetings are not open to the public. VisitScotland's board minutes are published on its website but board and committee papers and committee meeting minutes are not publicly available. The board has recently reviewed the information that is made publicly available and agreed to extend this to include several policy and framework documents.

73. While it is for each organisation to determine what papers are made available, we continue to hold the view that additional information about finances and performance should be published where it is reasonable to do so. This is ultimately a matter for VisitScotland. VisitScotland should keep this area under review.

Transparent reporting of financial and performance information

74. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and financial statements. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and

understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

75. We recognise the work that has gone into developing this report and understand that VisitScotland is considering how it can be further improved. In doing so, it will be important to ensure the right level of detail is given to both meet statutory requirements and to provide relevant insights into VisitScotland's performance and how it is contributing to the National Performance Framework and how it is managing risks to its performance.



Recommendation 1

VisitScotland should consider further developing its performance report to include more detail on targets, financial performance and outcomes. This could include clearly linking what VisitScotland has achieved with the public funds made available to it and how this is contributing to national outcomes.

Cyber security

76. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

77. VisitScotland achieved cyber essentials accreditation in May 2018 and achieved cyber essentials plus in July 2019. We have concluded that VisitScotland has a structured and effective approach to managing its cyber security risks.

Part 5

Value for money



Main judgements

VisitScotland demonstrates good practice by assessing Best Value and reporting findings to governance boards

VisitScotland has appropriate performance management arrangements with some areas for further improvement

Value for money is concerned with using resources effectively and continually improving services.

Best value

78. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. VisitScotland has a robust approach to gaining assurance in this regard and assesses itself against guidance, including the Audit Scotland Best Value toolkits. Management carried out this exercise in 2013 and 2016, and again in 2019.

79. In June 2019 management reported that generally positive practice was found across the organisation. There are plans to further analyse the data to gain more insights for improvement throughout 2019/20. In our view, this helps demonstrate a commitment to continuous improvement.

Performance management

80. VisitScotland reports its performance in several ways:

- Through performance indicators and narrative in the annual report and financial statements.
- To the Board through regular key performance measures reports and operational updates on areas such as IT, facilities, procurement, and social media reach.
- Internally, through presentations and reports to individual departments, and to all staff.

81. The annual report and financial statements provide an overview of the performance of the organisation over the period, using both statistical and narrative information. Principal Key Performance Indicators (KPIs) derived from the Economic Measurement Framework are included. There is scope to include more information on financial performance and future projections in this report.

82. In 2018/19, the reported economic KPIs consisted of 11 areas of key activity in consumer marketing, EventScotland, Expo, National Bid Fund and Route Development. Reporting of performance against economic KPIs could be further enhanced by including targets and an analysis of trends over time.

83. VisitScotland has a strategic framework which provides direction for the future of the organisation. This is a three-year plan which commenced at the start of the 2017/18 financial year and was reviewed by the Board in January 2019. The Board monitors activities and progress against these strategic aims throughout the year.

84. The board is ultimately responsible for scrutinising performance across all areas of activity. It receives information in a variety of reports to enable it to do this. Each Board meeting receives a key performance measures report which is intended to provide a high-level overview of core project and operational activity. It provides a risk-based summary of key VisitScotland activities, along with performance against financial budgets.

85. Overall, we concluded that VisitScotland has appropriate arrangements for monitoring and reporting performance and Board members are provided with comprehensive information which supports scrutiny. There is an opportunity to collate the various strands of performance reporting that members receive in a way which might help present a more rounded picture of performance at a corporate level. VisitScotland could, for example, consider linking these measurable performance indicators to its strategic aims and outcomes and then to the Scottish Government's National Performance Framework.

National performance audit reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of direct interest to VisitScotland. These are outlined in [Appendix 4](#).

87. We note that VisitScotland considers and reviews Audit Scotland's national reports, which have in recent years included guidance on EU withdrawal preparedness and utilisation of the suite of best value toolkits.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Performance report</p> <p>VisitScotland has been developing its performance report in the annual report and financial statements over the last two years.</p> <p>There is an opportunity to enhance this report by providing more financial performance information to demonstrate what VisitScotland has achieved with the public funds made available to it and how this is contributing to national outcomes.</p>	<p>Management could further develop its performance report to include more detail on targets, risks and financial performance and outcomes.</p> <p>Paragraphs 76 and 87</p>	<p>VisitScotland will undertake a review of the performance report with management and the Board during 2019/20.</p> <p>Mervyn Brown.</p> <p>31/03/2020.</p>

Follow up of prior year recommendations

3 b/f	<p>Financial strategy</p> <p>VisitScotland has taken significant steps to improve longer-term financial planning, with the development of a strategic framework and three-year horizon planning.</p> <p>Management should build on this and create a standalone financial strategy, which pulls together all key relevant financial information.</p> <p>Without this, there is a risk that relevant information is not accessible for key decision-makers.</p>	<p>Management should further develop medium to longer-term financial plans against the findings of our 'Scotland's public finances' report, which sets out the important elements that should feature in an overarching financial strategy.</p>	<p>In 2018/19 VisitScotland implemented phase one of a new ERP system. This system is a key tool in developing the longer-term financial strategy and workforce plan for the organisation.</p> <p>In addition to the above, 2019/20 is year two of a three-year strategic framework. Therefore, a refresh of the organisation's overall corporate strategy is underway in the current year.</p> <p>Both the new ERP system and development of the new strategic framework will enable management to create a long-term financial strategy and workforce plan that are aligned to the organisation's strategic outcomes.</p> <p>Ken Neilson</p> <p>31/03/2020</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
4 b/f	<p>Workforce planning</p> <p>In October 2017 the board reviewed VisitScotland's People Strategy and management indicated that the development of an integrated long-term workforce plan was among several key initiatives they wished to progress.</p> <p>As at August 2019, a proposal has yet to be brought before the board therefore there remains a risk that, without an organisation-wide workforce plan, VisitScotland may be unable to deliver its corporate strategy due to skills gaps in key areas.</p>	<p>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 the necessary staff resource in place to deliver its key priorities.</p>	<p>In 2018/19 VisitScotland implemented phase one of a new ERP system. This system is a key tool in developing the longer-term financial strategy and workforce plan for the organisation.</p> <p>In addition to the above, 2019/20 is year two of a three-year strategic framework. Therefore, a refresh of the organisation's overall corporate strategy is underway in the current year.</p> <p>Both the new ERP system and development of the new strategic framework will enable management to create a long-term financial strategy and workforce plan that are aligned to the organisation's strategic outcomes.</p> <p>Lynn Jack 31/03/2020</p>

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 financial statements 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 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Detailed testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year. • Evaluation of significant transactions that are outside the normal course of business. 	<p>Testing of journal entries, accruals and prepayments was satisfactory.</p> <p>Accounting estimates and key assumptions were reasonable.</p> <p>Testing of post year-end transactions did not find any errors.</p> <p>There were no significant transactions outside the normal course of business.</p> <p>Satisfactory</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA240 requires auditors to presume a risk of fraud where income streams are significant. In 2017/18, VisitScotland received £7 million (13 per cent) of its income from sources other than Scottish Government funding, including retail and commercial income. 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>The Financial Reporting Council's Practice Note 10 (revised) expands the ISA 240 assumption in the public sector to cover expenditure. The extent and nature of expenditure means that there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Walk-through of controls over receivables and payables. • Review of VisitScotland's arrangements to prevent and detect fraud. • Analytical procedures on income and expenditure streams as appropriate. • Detailed testing of income and expenditure transactions focusing on the areas of greatest risk, including grants awarded to third parties. • Cut-off testing of income and expenditure streams. 	<p>Walk-through testing of the receivables and payables systems found key controls operated as expected.</p> <p>We found VisitScotland's arrangements for preventing and detecting fraud to be appropriate</p> <p>We were provided with satisfactory explanations for any movements/trends found from analytical procedures on income streams.</p> <p>Detailed testing of income and expenditure transactions found no errors.</p> <p>We reviewed the processes and postings in place regarding grants awarded to third parties and were satisfied that these are appropriate.</p> <p>Satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions, non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>In addition, VisitScotland is in the process of implementing phase two of its visitor information strategy. This business transformation includes a planned reduction of the staffed estate from 66 to 26 visitor centres, with a reduction of 19 expected in 2018/19. This is likely to have an impact on the carrying value of non-current assets and involves accounting for staff reductions. There is a risk that amounts and disclosures are not properly reflected in the financial statements.</p>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates. • Consider officers' arrangements for assessing the impact of any movement in pension fund values between the IAS19 valuation date and the year end. • Review of data that VisitScotland provides to pension administrators and the actuary. • Review of appropriateness of actuarial results and assumptions. • Review and focused testing of other significant accounting estimates including non-current asset disclosures, provisions, accruals and any contingent liabilities. • Review of actual experience of significant estimates made at previous year end. 	<p>Our testing found that staff costs, non-current assets, pension disclosures and provisions were accounted for satisfactorily.</p> <p>We reviewed the arrangements VisitScotland has in place for the accurate deduction of pension contributions and sample tested a number of these. In addition, we reviewed the assumptions made by the actuary, and verified entries in the actuary's report to VisitScotland's financial records.</p> <p>Our testing of other significant accounting estimates did not find any issues.</p> <p>We reviewed the appropriateness of accruals in comparison to realised experience in 2018/19.</p> <p>Satisfactory</p>
<p>Implementation of Enterprise Resource Planning System (ERPS)</p> <p>During 2018/19, VisitScotland implemented ERPS, an integrated finance, procurement and HR system, and migrated data from the previous ledger system and other financial systems to the ERPS. There is a risk over the integrity and completeness of migrated data which will be used to prepare the financial statements.</p> <p>In addition, we reported in 2017/18 that there were differences between the non-current asset register and the ledger in relation to historic cost and accumulated depreciation for some assets. Management is verifying non-current assets to bring the new ledger into line with the non-current asset records as part of the introduction of the ERPS. There is a risk that amounts, and disclosures are not properly reflected in the ERPS and therefore in the financial statements.</p>	<ul style="list-style-type: none"> • Reliance on internal audit's review of data migration to ERPS and asset verification. • Initial system reviews of the new ledger system and other integrated finance systems within the ERPS. • Testing of balances and transactions from the previous financial systems and from the ERPS. • Focused review of non-current asset disclosures, transactions and balances including the assets under construction and revaluation reserve. 	<p>We reviewed the interim work of internal audit and undertook some initial system review work. Internal audit did not report any weaknesses.</p> <p>We performed focused testing on non-current assets.</p> <p>We identified a number of minor coding errors within ERPS during this process which management have agreed to address.</p> <p>Satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Financial management - pensions</p> <p>There is continued uncertainty around the structure and valuation of the British Tourist Board Pension scheme, creating a risk that annual employer contributions may increase and therefore result in increased financial pressures for VisitScotland.</p> <p>In addition, VisitScotland participates in twelve Local Government Pension Schemes, the majority of which have reducing VisitScotland membership. There is a risk that significant liabilities could become payable when there are no longer any active members paying into the schemes.</p>	<ul style="list-style-type: none"> • We will monitor and assess progress against on-going resolution of pension schemes issues. In particular, we will: <ul style="list-style-type: none"> • assess VisitScotland's arrangements for monitoring and responding to pensions developments • assess the level of reporting to the Board and its committees, and to the Scottish Government • consider a potential impact of pensions issues on the amounts and disclosures in the 2018/19 financial statements. 	<p>Refer to paragraphs 68 and 69</p> <p>We reviewed board minutes and papers and discussed with management.</p> <p>We reviewed relevant reports from actuaries.</p> <p>Satisfactory</p>
<p>Resource planning</p> <p>In our 2016/17 and 2017/18 annual audit reports we recommended that VisitScotland creates a medium to long-term financial strategy and an organisation-wide workforce plan to support the organisation's corporate plan. Management has developed some components of the strategy and intends to prepare a workforce plan following the implementation of the ERPS. Until an overarching financial strategy and an integrated workforce plan are in place there remains a risk that VisitScotland:</p> <ul style="list-style-type: none"> • does not have a complete picture of its longer-term financial position and the challenges it faces in meeting its objectives in the medium to long term • may be unable to deliver its corporate strategy due to skills and capacity gaps in key areas. 	<ul style="list-style-type: none"> • Review of robustness of any medium to long-term financial strategy and plans. • Review and assessment of scenario planning. • Review Board papers and minutes to assess Board level consideration and oversight of budgets and long-term financial planning. • Review and assessment of VisitScotland's workforce plan, once available. 	<p>Refer to paragraphs 31 and 63</p> <p>We reviewed board minutes and papers and discussed progress with management.</p> <p>We have brought forward recommendations in relation to this. See Appendix 1.</p> <p>Satisfactory</p>
<p>EU withdrawal</p> <p>The UK's decision to leave the EU on 29 March 2019 will affect public bodies in Scotland to some degree, including VisitScotland. These effects remain uncertain and will unfold over both the short and the long term. Public bodies need to be prepared for a range of possible outcomes. There is a risk that withdrawal from the EU adversely affects VisitScotland's business.</p>	<ul style="list-style-type: none"> • We will assess and report on VisitScotland's level of preparedness for EU withdrawal. 	<p>Refer paragraphs 64 to 67</p> <p>We reviewed board minutes and papers and discussed with management.</p> <p>We are satisfied that VisitScotland has taken reasonable steps to prepare for the impact of EU withdrawal.</p> <p>Satisfactory</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Central Government relevant reports

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

VisitScotland

2018/19 Annual Audit Report

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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