

VisitScotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for VisitScotland and the Auditor General for Scotland

November 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 Due to audit adjustments both the VisitScotland and group net expenditure has been reduced by £2.8 million to £130.1 million. There is no impact on the reserves position.

Financial management and sustainability

- 3 Appropriate and effective financial management is in place. VisitScotland lead role in delivering Covid-19 support schemes to the Tourism and Events Sector had a significant financial impact.
- 4 VisitScotland adapted their systems of internal control to reflect new ways of working and have maintained standards for the prevention and detection of fraud and error.
- 5 The Covid-19 outbreak has had a significant economic impact on the Events and Tourism Sectors. VisitScotland financial plans will need to reflect the medium and longer-term actions required to support economic recovery in future years

Governance, transparency and value for money

- 6 Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that VisitScotland has appropriate and effective governance.
- 7 In light of the impact of the Covid-19 pandemic and the importance of virtual access VisitScotland should continue to review the information that is available to the public on the website.
- 8 VisitScotland's Best Value policy demonstrates its commitment to continuous improvement.
- 9 There are appropriate performance management arrangements in place, but the reporting of service performance levels was paused as the organisation supported the response to the Covid-19 pandemic.

Introduction

1. This report summarises the findings from our 2020/21 audit of VisitScotland.
2. The scope of our audit was set out in our Annual Audit Plan presented to the May 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the body's annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the VisitScotland's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the VisitScotland's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on VisitScotland during 2020/21. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned work to address any new emerging risks.

Adding value through the audit

5. We add value to the VisitScotland through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - 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.

Responsibilities and reporting

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

7. VisitScotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
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. As public sector auditors we give independent opinions on the annual report and accounts.
9. Additionally, we conclude on the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
10. This report raises matters from our audit. 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.
11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out recommendations, responsible officers and dates for implementation. It also includes actions from last year and the progress that has been made.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
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 2020/21 audit fee of £75,380 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. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

Due to audit adjustments both the VisitScotland and group net expenditure has been reduced by £2.8 million to £130.1 million. There is no impact on the reserves position.

Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2021 were approved by the board on 9 December 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- 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 accounts were provided on time and the Covid-19 pandemic had a limited impact on the audit process

16. A complete annual report and accounts was presented for audit, in line with our agreed timetable, on 6 September 2021. The working papers were of a good standard and the finance staff provided support to the audit team which helped ensure a smooth audit process.

17. VisitScotland and Audit Scotland staff continued to work remotely during the audit. This presents challenges for both teams in resolving queries and providing supporting evidence. Overall, the arrangements worked well, and we would like to thank the finance team for their work and assistance in delivering the audit under difficult circumstances.

18. HM Treasury have advised that the forms required for bodies to complete their Whole of Government Accounts (WGA) submission will not be available until December 2021. We will work with management to complete the assurance statement for WGA in due course.

Overall materiality was unchanged from planning and remained at £1.3 million

19. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we consider factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

20. Our initial assessment of materiality was carried out during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate as summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.3 million
Performance materiality	£0.8 million
Reporting threshold	£65,000

Source: Audit Scotland

[Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

21. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings from the audit in accordance with ISA 260

22. 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 VisitScotland's accounting practices. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2**Significant findings from the audit of financial statements**

Issue	Resolution
<p>1. Group Accounts – Cycling World Championships Balances</p> <p>Cycling World Championships (CWC) is a wholly owned subsidiary of VisitScotland. 2020/21 represents the first year that CWC has been subject to audit and fully consolidated in the VisitScotland Group Accounts.</p> <p>In the unaudited accounts for CWC the income from Scottish Government, Glasgow City Council and UK Sport had been recognised under IFRS 15. An accrual was made for unspent funding due back to funding partners to recognise any unspent ringfenced funds.</p> <p>Following discussions between management and CWC auditors, it has been agreed that the correct accounting treatment was to recognise the funding from Glasgow City Council and UK Sport under IAS 20 with any unspent income, in relation to these grants, being deferred.</p> <p>The impact on the VisitScotland Group Statement of Comprehensive Net Expenditure was to decrease 2023 UCI Cycling World Championships income and expenditure by £2.2 million.</p>	<p>This has been amended in the audited annual report and accounts.</p>
<p>2. VisitScotland Expenditure Adjustment</p> <p>During the audit process VisitScotland were in discussion with the Scottish Government about the allocation of the remaining £2.8 million business support funds.</p> <p>This had been accrued as expenditure in the unaudited annual report and accounts as VisitScotland expected to pay this out due to the top up arrangements in place.</p> <p>As small amounts were spread across a number of funds VisitScotland entered into discussion with the Scottish Government about the best way to utilise these funds.</p> <p>The Scottish Government ultimately requested that the funding be returned meaning that the financial statements had to be adjusted to remove £2.8 million expenditure and accrual.</p>	<p>The expenditure has been amended in the audited annual report and accounts.</p> <p>An addendum to the funding letter was received from the Scottish Government reducing the funding provided for 2020/21.</p>

Issue	Resolution
<p>3. Remuneration and Staff Report – Fair Pay Disclosure</p> <p>The Fair Pay Disclosure included in the 2020/21 annual report and accounts was incomplete.</p> <p>The working papers for the Fair Pay Disclosure showed that the ratio had not been calculated in line with the requirements of the 2020/21 Government’s Financial Reporting Manual. This also resulted in a prior period adjustment as the same methodology had been applied to the comparative figures.</p> <p>The impact of this was to change the ratio from 5.29 to 5.38 (5.63 to 5.38 for 2019/20) and the median remuneration from £29,457 to £30,216 (£27,245 to £29,293 for 2019/20).</p>	<p>This has been amended in the audited annual report and accounts.</p>

Source: Audit Scotland

23. Last year our Annual Audit Report highlighted that the external valuer, Graham and Sibbald, had included a ‘material valuation uncertainty’ clause due to the impact of the Covid-19 pandemic. We can confirm that the assets have again been revalued and that this material valuation uncertainty clause has now been removed by the valuer.

All identified misstatements have been corrected in the audited accounts

24. As detailed in [Exhibit 2](#) the overall impact of the above misstatements is that both the VisitScotland and group net expenditure has been reduced by £2.8 million to £130.1 million. There is no impact on the reserves position.

25. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. 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 and materiality.

26. There were no uncorrected misstatements.

Good progress was made on prior year recommendations

27. VisitScotland has made good progress in implementing our prior year audit recommendations as detailed in [Appendix 1](#).

2. Financial management

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

Main judgements

Appropriate and effective financial management is in place. VisitScotland lead role in delivering Covid-19 support schemes to the Tourism and Events Sector had a significant financial impact.

VisitScotland adapted their systems of internal control to reflect new ways of working and have maintained standards for the prevention and detection of fraud and error.

VisitScotland operated within its revised budget in 2020/21

28. The main financial objective for VisitScotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. VisitScotland has reported a revenue resource outturn of £122.6 million against its overall budget for 2020/21, achieving breakeven at the year-end. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2020/21

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	41.1	122.6	122.6	breakeven
Capital DEL	5.3	6.3	6.3	breakeven
Total DEL	46.4	128.9	128.9	

Source: VisitScotland 2021

Budget processes were appropriate and the response to the Covid-19 pandemic had a significant financial impact for VisitScotland

29. VisitScotland's budget was increased as part of the Autumn and Spring Budget revisions. Additional funding from the Scottish Government for Covid-19 support totalled £78.8 million. The other major areas of additional expenditure or reduced income at VisitScotland included:

- Overall income was reduced by 87 per cent on previous year, a reduction of £3.8 million. Income from commercial sources and retail outlets reduced by £3.4 million, equivalent to a 96 per cent reduction. All Visitor Information Centres were closed for much of the year and VisitScotland did not receive any income from the Quality Assurance Scheme for hotels and guest houses as the service was not delivered during the year. Other income reduced by £0.4 million (down 47 per cent).
- £0.5 million in additional funding was received to support operational activities in the delivery of the Covid-19 business support schemes.
- Expenditure on core activity was reduced as many organisations within the sector were closed due to Covid-19 restrictions, resulting in an underspend in VisitScotland's core budget.

30. VisitScotland redirected underspends in core budgets to invest in digital capacity and associated platforms as well as reallocating £1.8 million of core budget to supplement the Covid-19 Business Support Grants funds.

31. We observed that senior management and the board continued to receive regular and accurate financial information on VisitScotland's financial position.

VisitScotland was the lead body for delivering Covid-19 grant funding schemes to the Tourism and Events Sector

32. During 2020, the Scottish Government requested that VisitScotland administer a number of schemes on their behalf to provide support to organisations and individuals in the Tourism and Events Sector. VisitScotland received £78.8 million of Government funding during the year and utilised £1.8 million of its own core budget to top up the funds available for these Schemes to £80.6 million.

33. By March 2021, VisitScotland had distributed £50.1 million of grants. A further £30.5 million expenditure was accrued to meet the commitments which existed at 31 March 2021. We noted that VisitScotland kept in regular communication with the Scottish Government on the delivery of the schemes including obtaining agreement on the accounting treatment given read across with other bodies providing similar Covid-19 support. Small underspends remained across a number of the schemes and, following discussion with the Scottish Government, the 2020/21 funding was reduced by £2.8 million.

34. VisitScotland do not normally administer funding programmes of this nature and had to introduce new systems and processes at speed. VisitScotland's budget was increased by £0.5 million to cover expenditure on additional staff resources and systems.

35. In our view VisitScotland implemented adequate systems for recording and processing grant transactions and put appropriate measures in place to reduce the risk of fraudulent or erroneous payments.

Financial systems of internal control are operating effectively

36. Our management letter presented to the Audit and Risk Committee in July 2021 included our findings from the review of systems of internal controls. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified which could affect VisitScotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit concluded that the framework of governance, risk management and controls provides reasonable assurance

37. VisitScotland's internal audit function is carried out by Azets. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2020/21 is that of 'reasonable assurance' on the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks. For the above reviews, only minor recommendations and areas of improvements were identified.

38. We reviewed VisitScotland's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. We have placed reliance on the work of internal audit on Covid-19 support funds.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

39. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. VisitScotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

40. We have reviewed the arrangements in place to maintain standards of conduct including fraud and other related policies. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

41. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. VisitScotland has made good progress in their work to investigate the matches.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long-term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

The Covid-19 outbreak has had a significant economic impact on the Events and Tourism Sectors. VisitScotland financial plans will need to reflect the medium and longer-term actions required to support economic recovery in future years.

VisitScotland's medium-term financial plan should be revised to reflect the impact of the Covid 19 pandemic

42. The financial impact of the pandemic on VisitScotland is likely to extend across several years. The economic impact on the Events and Tourism Sector has been severe during 2020 and 2021. VisitScotland's medium to long-term financial plan will need to reflect the actions needed to support the economic recovery of organisations and businesses within this Sector.

43. In 2021, VisitScotland reorganised some of its corporate functions to provide focus on financial planning and create better linkages with performance reporting. The adoption of a revised corporate plan linked to the STERG Action plan will provide the basis for financial planning in the medium and longer-term.

44. It is acknowledged that this work is at an early stage and therefore it is important that sufficient resources are secured to ensure that VisitScotland has the necessary knowledge and skills to successfully support this work.

Recommendation 1

VisitScotland should keep under review the adequacy of the resource requirements across the organisation to ensure that there is sufficient capacity to successfully support longer-term financial sustainability through effective financial planning and performance reporting.

VisitScotland consolidated and transferred all existing Local Government Pension Schemes into the Lothian Pension Fund

45. We reported in 2018/19 that VisitScotland was exploring options to help ensure value for money and the longer-term sustainability of its pension schemes. VisitScotland was a member of several Local Government Pension Schemes (LGPS), the majority of which had reducing membership amongst existing staff. VisitScotland also faced additional employer contribution costs as a result of the relatively small number of participants.

46. In August 2020, the Scottish Public Pensions Agency (SPPA) approved a Direction Order allowing VisitScotland to consolidate and transfer all existing LGPS schemes into the Lothian Pension Fund (LPF). Throughout the year there was a bulk transfer of all assets and liabilities from each fund into the LPF. The LPF now holds all assets and liabilities in respect of the Employer's share of the LGPS.

47. In addition, following discussions between VisitScotland and trustees of the British Tourism Board Pension Fund, an agreement has been reached on VisitScotland's employer contributions rate. This has reduced from 25.1 per cent to 24.2 per cent resulting in a saving of £0.1 million per year.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

Arrangements have been adapted to reflect the impact of the Covid 19 pandemic. We have considered these measures and have concluded that VisitScotland has appropriate and effective governance.

In light of the impact of the Covid-19 pandemic and the importance of virtual access VisitScotland should continue to review the information that is available to the public on the website.

The governance arrangements are appropriate and have been adapted in response to the Covid-19 pandemic

48. The impact of the Covid-19 pandemic has been set out in the Governance Statement in VisitScotland's annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by VisitScotland including:

- Meetings of governance groups and committees moved online
- Daily meetings of VisitScotland senior staff and the business continuity group
- Reprioritisation of the IT department's activities to ensure staff had the right equipment and support to work from home
- Paper processes, such as authorisation of write offs and invoice processing were moved to electronic
- VisitScotland staff worked with key stakeholders to help support the tourism and events industry

49. We have also reviewed revisions to key financial controls as a result of Covid 19 during 2020/21. As reported in our management letter, we can confirm that appropriate controls were in place and operating during the year.

VisitScotland should explore opportunities to strengthen its openness and transparency

50. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. 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 resources such as money, people, and assets.

51. As we have reported previously, in contrast to some other public bodies, VisitScotland board meetings are not open to the public. VisitScotland board minutes and action plans are published on its website. Board and committee papers and committee meeting minutes are not publicly available. In addition, performance against KPIs is not regularly reported on its website.

52. In light of the impact of the Covid-19 pandemic and the importance of virtual access to information additional information about finances and performance should be published on VisitScotland's website.

The performance report was of a good standard but could be tailored to ensure clarity of message

53. In addition to the opinion on the performance report we also consider the qualitative aspects of VisitScotland's performance report. The performance report should provide information on its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of performance as well as helping stakeholders understand the financial statements.

54. VisitScotland made improvements to the performance report during the audit process. We recognise the work that VisitScotland has put in to developing this report, particularly during this challenging year. We will continue to work with VisitScotland, during 2021/22 and prior to the preparation of next year's annual report and accounts, as we believe the performance report could be tailored to better tell the story and support the reader.

Recommendation 2

VisitScotland should review Audit Scotland's good practice note on improving the quality of central government annual report and accounts when preparing their 2021/22 performance report.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

VisitScotland's Best Value policy demonstrates its commitment to continuous improvement.

There are appropriate performance management arrangements in place, but the reporting of service performance levels was paused as the organisation supported the response to the Covid-19 pandemic.

VisitScotland has an appropriate Best Value framework in place

55. [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. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

56. VisitScotland has a robust approach to gaining assurance in this regard including completing self-assessments against key guidance, including the Audit Scotland Best Value toolkits. This work has been completed by management in 2013, 2016 and again in 2019.

57. In July 2020, this approach was embedded in VisitScotland's new Best Value policy. The policy states that VisitScotland will undertake a review of Best Value every three years. It also states that management will seek to improve performance in a minimum of at least two areas with the intention that this will help to instil a culture of continuous improvement in the organisation. Every three years, the results of the scoring of the toolkits are to be reported to the Leadership Group, Audit and Risk Committee and Board. This demonstrate a commitment to continuous improvement which is embedded within the organisation.

VisitScotland paused reporting of service performance levels during the Covid-19 pandemic

58. VisitScotland's Key Performance Indicators (KPIs) are derived from its Economic Measurement Framework and focus on the economic impact of VisitScotland's main programmes.

59. Due to the impact of the Covid-19 pandemic on the industry, reporting against the economic indicators in 2020/21 was paused as a result of the change in VisitScotland's core activity during the financial year. VisitScotland will return to reporting against its Economic Measurement Framework indicators during 2021/22.

National performance audit reports

60. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the body. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Medium to long-term financial plan</p> <p>The Events and Tourism Sector is facing significant economic challenges as it looks to recover from the pandemic.</p> <p>VisitScotland's financial plans and performance reporting arrangements must properly support the decision-making processes. It is essential that VisitScotland has the necessary resources to deliver this function.</p> <p>Risk – Failure to properly resource this function may lead to reduced capacity to deliver financial planning activity and effective and timely performance reporting.</p>	<p>VisitScotland should keep under review the adequacy of the resource requirements across the organisation to ensure that there is sufficient capacity to successfully support longer-term financial sustainability through effective financial planning and performance reporting.</p> <p>Paragraph 42 - 44</p>	<p>Agreed. This will be kept under review.</p> <p>Responsible officer: Michelle Lavery</p> <p>Target date: 31 March 2022</p>
<p>2. Performance reporting</p> <p>The performance report within the annual report and accounts could be tailored to better tell the story and support the reader.</p> <p>Risk – There is a risk that the performance report includes unnecessary information leading to the key messages being lost.</p>	<p>VisitScotland should review Audit Scotland's good practice note on improving the quality of central government annual report and accounts when preparing their 2021/22 performance report.</p> <p>Paragraph 53 - 54</p>	<p>Agreed. This will be kept under review.</p> <p>Responsible officer: Michelle Lavery</p> <p>Target date: 30 June 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
PY 1. Group Accounts	VisitScotland will need to produce full group financial statements in 2020/21. This will include separate financial statements for the group position and VisitScotland as a single entity. It should consider how best to provide segmental information.	Complete VisitScotland produced full group financial statements for 2020/21.
PY 2. Strategic Framework and Corporate Plan	VisitScotland should assess what changes have enabled it to respond to the Covid-19 pandemic and what this means for its future operating model, strategic framework and corporate plan. An annual and corporate plan is needed to set out its short and medium-term response and priorities and how this will be achieved.	In progress VisitScotland is currently preparing an updated corporate plan which will be aligned to the objectives of the Scottish Tourism Emergency Response Group action plan.
PY 3. Business Support Grants	VisitScotland should consider how it will measure and report on the impact of the business support funds that it is directly responsible for. This could include the number of business awarded grants, the effectiveness of processing as well as the economic impact.	Complete Final evaluation reports have been prepared for the Scottish Government following the completion of the Covid Grant Support Schemes during 2021.
PY 4. Performance Report	Management could further develop its performance report to include more detail on targets, risks and financial performance and outcomes.	In progress – see Recommendation 2 above.

Issue/risk	Recommendation	Agreed management action/timing
PY 5. Financial Strategy	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.	In progress – see Recommendation 1 above. The Board approved a budget setting process in March 2021 that will set out financial plans across the short (< 1 year), medium (1-3 years) and long-term (10 years).

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of 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. • Assessment of appropriateness of accounting estimates. • Cut-off testing to confirm income and expenditure is accounted for in the correct financial year. • Identification and evaluation of any significant transactions that are outside the normal course of business. 	<p>Results: No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focussed testing on income and expenditure did not identify any instances of management override of controls.</p> <p>Within substantive testing we considered whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transaction listings that were outside the normal course of business.</p> <p>Conclusion: Satisfactory, we did not identify any incidents of management override of controls.</p>
<p>2. Risk of material misstatement due to fraud in expenditure</p> <p>The Financial Reporting Council's Practice Note 10</p>	<ul style="list-style-type: none"> • Walk-through of controls over expenditure. • Review of VisitScotland's arrangements to prevent and detect fraud. 	<p>Results: During the audit, we reviewed this risk and concluded that, while it still represented a risk of material misstatement, it did not</p>

Audit risk	Assurance procedure	Results and conclusions
<p>extends the requirements of ISA 240 to include the consideration of fraud in expenditure for public bodies. The extent and nature of expenditure, particularly the new business support grants to third parties, means there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Testing of expenditure transactions focusing on the areas of greatest risk, including business support grants awarded to third parties. • Cut-off testing to confirm expenditure is accounted for in the correct financial year. • Consideration of internal audit's review of business support grants. 	<p>represent a significant risk of material misstatement (as defined by ISA (UK) 315) for the 2020/21 financial statements.</p> <p>As a result, we did not require to undertake any specific targeted audited work to address this risk as our routine testing of expenditure for the final statements audit was sufficient to provide assurance over this risk.</p> <p>No issues were identified from our audit testing.</p> <p>Conclusion: Satisfactory.</p>
<p>3. Risk of error in 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. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p>	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Focused substantive testing of classification and valuation of non-current assets. • Assess the appropriateness of actuarial assumptions. • Testing of pension disclosures. • Review and testing of other significant accounting estimates and disclosures including accruals, provisions and any contingent liabilities. 	<p>Results: We discussed the valuation process with the valuer, reviewed the reports and confirmed these to asset valuations in the accounts with no issues identified.</p> <p>We discussed the valuation process with the actuary, reviewed the reports and confirmed these to pensions valuations in the accounts with no issues identified.</p> <p>No issues were identified from audit testing in areas with significant estimation and judgement.</p> <p>Conclusion: Satisfactory.</p>
<p>4. Group accounting and reporting arrangements</p> <p>In March 2020, a subsidiary company, Cycling World Championships 2023 Ltd (CWC Ltd), was formally created as a wholly owned subsidiary of VisitScotland. 2020/21 will be the first full year of VisitScotland group accounts. There is a risk that</p>	<ul style="list-style-type: none"> • Review of governance arrangements and internal audit work in this area. • Examination of disclosures made in the annual report and accounts. • Review of CWC Ltd consolidation pack and assurance checklist from the external auditor. 	<p>Results: Audit adjustments were made to the annual accounts of CWC Ltd. These adjustments have been correctly amended in the group accounts.</p> <p>No other issues were identified from audit testing in group accounts.</p> <p>Conclusion: Satisfactory.</p>

Audit risk	Assurance procedure	Results and conclusions
transactions and balances are not accounted or disclosed appropriately in the financial statements and corresponding notes.	<ul style="list-style-type: none"> • Testing of consolidation adjustments and the elimination of intra-group transactions and balances. 	

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>5. Risk to financial sustainability and capacity</p> <p>VisitScotland has a key role in planning and supporting the tourism and events industries' recovery from the impact of the Covid-19 pandemic. As at 10 March 2021 VisitScotland was responsible for distributing £82 million across 18 funds. Coordinating and managing this will continue to have a significant impact on VisitScotland's plans and staff. Income from commercial activities is likely to remain low in future years, with more reliance on government funding. As a result, VisitScotland will need to reassess its current operating model and strategic plans, including finance and workforce.</p>	<ul style="list-style-type: none"> • Review governance committee papers and decision making. • Assess appropriateness of longer-term plans, strategies, and forecasts. • Discussions with senior management. 	<p>Results: VisitScotland successfully delivered a programme of Covid-19 funding schemes to support organisations and individuals within the Events & Tourism Sector during 2020/21.</p> <p>VisitScotland is a key member of STERG and has a significant role to play in supporting economic recovery within the sector. Action has been taken to improve internal financial planning activity over the short, medium and longer term to align financial support with identified actions to achieve corporate objectives.</p> <p>Conclusion: Satisfactory.</p>
<p>6. Risk to the effectiveness of governance arrangements</p> <p>There is an increased risk to governance and transparency and counter-fraud arrangements associated with the Covid-19 pandemic. VisitScotland adapted quickly during 2020 to enable it to continue operating. There is a risk that these changes</p>	<ul style="list-style-type: none"> • Review of governance committee papers and decision making. • Consideration of internal audit reports. • Monitor progress in following up NFI matches. 	<p>Results: We identified appropriate systems and processes had been established to design, administer, and manage the individual Covid-19 Business Support Grant Funds.</p> <p>Overarching governance arrangements had been established to oversee and coordinate the internal arrangements. These were</p>

Audit risk	Assurance procedure	Results and conclusions
<p>impacted on the effectiveness of the governance and counter-fraud arrangements during 2020/21.</p>		<p>supported by regular and timely performance and financial reporting arrangements, which included regular updates to the Board and Audit and Risk Committee.</p> <p>Our review of the key systems identified established key controls including specific actions to detect and prevent fraud. These controls were found to be operating as expected.</p> <p>Our substantive testing considered whether transactions were correctly assessed and paid within the terms of individual grant schemes. No issues were identified from this audit testing</p> <p>Conclusion: Satisfactory.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

VisitScotland

2020/21 Annual Audit Report

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