

VisitScotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for VisitScotland and the Auditor General for Scotland

September 2018

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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and financial statements	7
Part 2 Financial management	11
Part 3 Financial sustainability	13
Part 4 Governance and transparency	16
Appendix 1 Action plan 2017/18	19
Appendix 2 Significant audit risks identified during planning	20
Appendix 3 Summary of national performance reports 2017/18	24

Key messages

2017/18 annual report and financial statements

- 1** The financial statements give a true and fair view of VisitScotland's financial position as at 31 March 2018 and its net expenditure for the year.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with applicable legislation and guidance.
- 3** The other information in the annual report and financial statements covered by our audit opinions is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4** VisitScotland operated within its budget. Overall, we concluded that its financial management arrangements are effective.
- 5** Key controls in main financial systems operated as expected in 2017/18, with no significant weaknesses identified.
- 6** Effective budget-monitoring arrangements are in place.

Financial sustainability

- 7** VisitScotland should further develop financial and workforce strategies and plans to support longer-term resource decision-making and planning.
- 8** VisitScotland recognises financial uncertainties arising from its participation in pension schemes and is actively seeking resolutions.

Governance and transparency

- 9** VisitScotland has appropriate arrangements in place to support effective governance and accountability.
- 10** VisitScotland has taken significant steps to improve the presentation and content of its annual report and financial statements.
- 11** There is scope to increase openness and transparency in the way VisitScotland conducts its business.

Introduction

1. The scope of our audit was set out in our 2017/18 annual audit plan presented to the Audit and Risk Committee (ARC) meeting on 23 February 2018.

2. This report summarises the findings from our 2017/18 audit of VisitScotland including:

- a high-level review of VisitScotland’s main financial systems
- an audit of VisitScotland’s annual report including financial statements
- considerations of the 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. As we reported in our annual audit plan, there were no value for money risks identified by our planning work that we undertook specific work on in 2017/18. To comply with our Code requirements, we plan to review VisitScotland’s performance management framework as part of our 2018/19 audit.

4. VisitScotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing the annual accounts that are in accordance with the accounts direction from the Scottish Ministers. VisitScotland’s annual accounts include the following:

- Performance Report

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

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

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

7. As public sector auditors we give independent opinions on the annual report and financial statements. Also, we review and provide conclusions on the effectiveness of the board's performance management arrangements; suitability and effectiveness of corporate governance arrangements; and financial position and arrangements for securing financial suitability. Through our work in these areas we aim to support improvement and accountability.

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

9. 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 their 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.

10. 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 2017/18 audit fee of £69,410 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to VisitScotland by providing insight foresight on financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. Additionally, this year we provided technical assistance on several accounting and reporting issues, including performance report disclosures associated with VisitScotland's work to revise the format of its annual report. In this way, we help promote: improved standards of governance; better management and decision-making; more effective use of resources; and enhanced openness and transparency.

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 outstanding actions from last year and the steps being taken to implement them.

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

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

Part 1

Audit of 2017/18 annual report and financial statements



Main judgements

The financial statements of VisitScotland give a true and fair view of its financial position as at 31 March 2018 and its net expenditure for 2017/18.

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

The other information in the annual report and financial statements covered by our audit opinions is consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and financial statements

15. The annual report and financial statements for the year ended 31 March 2018 were approved by the board on 20 September 2018. We reported within our independent auditor's report that in our opinion:

- 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
- 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 accounts direction.

16. Additionally, we are required to report if there are any material misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received. We have nothing to report in respect of these matters.

Submission of annual report and financial statements for audit

17. We received the unaudited financial statements on 16 July 2018 in line with our agreed audit timetable. The working papers provided were of a good standard and finance staff provided effective support to the audit team.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the audit planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

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

Materiality

19. 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. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual report and financial statements we assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the annual report and financial statements for audit we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£530,000
Performance materiality	£371,000
Reporting threshold	£25,000

Source : VisitScotland Annual Audit Plan 2017/18

Evaluation of misstatements

22. Except for a matter affecting the net pension liability (see below), there were no material adjustments to the unaudited financial statements arising from our audit. There were also no individual misstatements or errors which exceeded our reporting threshold.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

24. These findings include our views about significant qualitative aspects of VisitScotland's accounting practices including:

- | | |
|---|--|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |

- Misstatements in the annual report and financial statements
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the 2017/18 financial statements

Issue	Resolution
<p>1. Assets under construction (AUC)</p> <p>The financial statements presented for audit included an amount of £395,000 for assets under construction (AUC). This was associated with the application of capital receipts from the sale of iCentres. VisitScotland is required to reinvest the capital receipts in the area in which the property was sold and is progressing two such projects.</p> <p>International Accounting Standard 16 (property, plant and equipment) requires entities to include expenditure recognised in the carrying amount of an item of property, plant and equipment during its construction.</p> <p>During the course of the audit, in view of project progress, evidence and the requirements of IAS 16, management reassessed the AUC classification.</p>	<p>Management rectified this by re-classifying the balance initially included in the accounts as assets under construction as a cash balance at the year end.</p> <p>We are content that the re-classification as a cash balance reflects the underlying position as at 31 March 2018.</p>
<p>2. Accounting for non-current assets</p> <p>The fixed asset register contains details on individual assets required to support disclosures in the financial statements. Net book values on the asset register agree with the financial ledger, but there are differences between the register and the ledger in relation to costs and accumulated depreciation for some assets.</p> <p>Management believes this is due to past events where certain asset adjustments which resulted in no change to the net book value were not entered in the financial ledger in full.</p>	<p>Management intends to bring the ledger into line with the fixed asset records as part of the introduction of the new Enterprise Resource Planning system in 2018/19.</p> <p>We are content the net book values for assets reflect the position and that these issues do not have a material effect on the 2017/18 financial statements.</p> <p>We will review fixed asset accounting and associated ledger entries, including those related to the revaluation reserve, in more detail in 2018/19.</p>
<p>3. IAS 19 Pensions disclosures – Local Government Pension Scheme (LGPS)</p> <p>We became aware from our wider audit work that asset returns estimated by actuaries for the purposes of LGPS valuations may have been lower than actual returns, to the extent that there was potential for a material impact on the amounts and disclosures in accounts. This is a national issue affecting all organisations which participate in the LGPS.</p>	<p>We drew this issue to the attention of management and they agreed to instruct actuaries to update their reports to reflect asset returns as at 31 March 2018. The revised report confirmed a material change in the net pension liability, amending this from £35.826m to £34.919m (a reduction of £0.9m). We are content that the revised amounts and disclosures in the accounts reflect the updated actuarial report.</p>

Other matters

25. 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.

26. VisitScotland launched its Information Strategy on October 2017. This aims to deliver more information using a combination of fewer traditional visitor centres, more face to face engagement, increased outreach activity and increased on-line provision. An implementation plan detailed how the staffed estate would reduce from 66 to 26 centres, by 21 in 2018 and by a further 19 in 2019.

27. All of the 21 iCentres identified in phase 1 of the strategy have now ceased operating, with a number of staff having accepted voluntary redundancy. VisitScotland is reconfiguring its owned and leased properties to align with the strategy. Phase 2 is expected to be completed in 2018/19. The Board has been updated on the progress of the strategy, along with an analysis of potential risks.

28. We identified a risk in our annual audit plan that amounts and disclosures relating to non-current assets and staff reductions may not be properly reflected in the financial statements. We carried out focused testing in these areas and are satisfied that relevant account areas have been properly accounted for.

Follow up of prior year recommendations

29. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

30. Two agreed actions were raised in 2016/17, relating to medium to longer-term financial strategy, and workforce planning. VisitScotland has made progress with these actions and expects these to be fully completed in 2018/19. Revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

VisitScotland achieved a balanced outturn within its grant-in-aid allocation. Overall, we concluded that financial management arrangements are effective.

Systems of internal control operated as expected in 2017/18 with no significant weaknesses identified.

We concluded that effective budget-monitoring arrangements are in place.

Financial performance in 2017/18

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

32. VisitScotland reported a Cash DEL outturn of £46.003 million, therefore remaining within its overall budget for 2017/18. The financial performance against Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL and AME in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	40.4	44.988	44.983	(0.005)
Capital DEL	0.6	1.02	1.02	-
Total Cash DEL	41	46.008	46.003	(0.005)
Non-cash DEL	2.229	2.229	0.963	(1.266)
Annually Managed Expenditure (AME)	5.0	5.0	3.463	(1.537)

Source: Scottish Government and VisitScotland accounts 2017/18

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

Budgetary monitoring

33. From our review of board papers, we noted that members receive regular and timely information on the financial position throughout the year. This information includes:

- Actual against budget for the year to date
- Projected outturn for the year
- Comparison of year-to-date actual with the same period in prior year
- Variances against budget, with explanations for any significant variances, along with a red-amber-green status to indicate if action may be required.

34. We concluded that effective budget-monitoring arrangements are in place which enables members to scrutinise the board's financial position throughout the year.

Systems of internal control

35. 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.

36. Our findings were included in the management report presented to the ARC on 12 April 2018. We concluded that the controls tested were operating as expected. No significant internal control weaknesses were identified during the audit.

Enterprise Resource Planning system

37. VisitScotland is implementing a fully integrated Finance, HR & Procurement Enterprise Resource Planning (ERP) system. This is a significant undertaking and requires careful planning and project management to ensure successful implementation and continuity of effective financial management and business support.

38. The Audit and Risk Committee (ARC) receives regular progress updates on the project. In June 2018, ARC members were advised that the project was progressing according to time and budget. During 2018/19, internal audit is scheduled to carry out a two-stage review of the project management arrangements and an assessment of data migration controls. We will consider their findings, as appropriate, during our 2018/19 audit.

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

Part 3

Financial sustainability



Main judgements

VisitScotland should further develop its medium to longer-term financial plans to create a standalone financial strategy.

VisitScotland should develop an organisation-wide workforce plan to ensure it has sufficiently skilled staff in place to deliver its key priorities.

VisitScotland recognises the importance of resolving uncertainties surrounding participation in its pension schemes and is actively seeking resolutions to mitigate the risk to its longer-term finances. Board members continue to be regularly updated on progress.

2017/18 financial position

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

40. The financial statements show that VisitScotland:

- has total assets of £13.205 million, an increase of £0.82 million largely attributable to increased value of property and intangible assets, along with an increased overall debtor balance
- pension liabilities remain in a deficit position with liabilities exceeding assets by £34.919 million.

Financial planning

41. In June 2018, VisitScotland approved a balanced budget for 2018/19 showing total expenditure of £54.85 million, a 3.6% increase on the 2017/18 outturn (£52.94m). Within this, grant in aid resource DEL, excluding additional funding allocations received in-year, is set to reduce from £40.4m in 2017/18 to £39.6m in 2018/19 (a reduction of 1.98%). Ringfenced income is expected to total £9.39m. Income from retail, commercial and other sources is budgeted at £5.86m, a reduction of 17% from the 2017/18 outturn (£7.042m). This reduction is primarily due to reduced local authority and other partnership income.

42. To achieve a balanced 2018/19 budget, VisitScotland took several steps which included:

- Reassessing its approach to elements of the Scotland is Now, a major marketing campaign to promote Scotland to a global audience. This is set to be reviewed pending any further funding from the Scottish Government
- setting a target to reduce staff costs through a moratorium on recruitment and the restructuring of certain parts of the organisation.

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

Medium to long-term financial planning

43. In 2016/17 we reported that VisitScotland had yet to develop an overarching medium to long-term financial strategy. In 2017/18, we reviewed the progress that had been made.

44. VisitScotland has taken steps to improve longer-term financial planning. In April 2018 the board approved a long-term investment strategy which included financial scenarios aligned with its strategic framework. The board examined possible financial situations over the next three years, ranging from steady to state to 5%, 10% and 15% cuts in GIA. The impact on strategy, finances and workforce was considered along with the implications for on-going projects and the capacity of the organisation to take on new challenges and initiatives.

45. We assessed progress against the key features of a financial strategy as set out in our [Scotland's public finances report](#) (June 2014). These include cost assessment, evidence-based options for savings, capital investment, and risks and timescales. While there is evidence of activity in a number of these areas, VisitScotland has yet to develop a standalone financial strategy which brings the key elements together.



Recommendation 1

VisitScotland should further develop its longer-term financial planning to create a standalone, comprehensive financial strategy.

Pension scheme liabilities

46. VisitScotland participates in several Local Government Pension Schemes (LGPS), the majority of which have reducing membership among existing staff. There is a risk that significant liabilities could become payable when there are no longer any active members paying into the schemes. VisitScotland is engaging 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 pension liabilities with all Local Government Pension Schemes.

47. The 2015 triennial actuarial valuation for the British Tourist Board Pension Scheme has yet to be agreed. VisitScotland continues to seek agreement from the Scottish Government to underpin VisitScotland's obligations under this scheme, with the aim of ensuring affordable employer contribution levels. VisitScotland is also in negotiations with VisitBritain to determine the future structure of the scheme.

48. VisitScotland recognises the importance of these matters to its longer-term finances and is actively exploring resolutions to mitigate the risk. The board is provided with updates on progress at each of its meetings.

EU withdrawal

49. There remains significant uncertainty about the detailed implications of EU withdrawal. 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 changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour
- funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports. VisitScotland is no longer in receipt of European Regional Development Fund income.

- regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

50. VisitScotland has included the risks associated with EU withdrawal in its risk register, which is regularly reported to the Audit and Risk Committee. These risks relate to macro-economic factors, such as fluctuations in exchange rates or decrease in business events bids, which may result in a reduction in the number of tourists to the UK and Scotland. Given the level of uncertainty over the implications of EU withdrawal, we assessed this as a reasonable approach at this stage.

Workforce planning

51. In 2016/17 we recommended that that VisitScotland should prepare an organisation-wide workforce plan.

52. 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 it wished to progress. This would aim to establish the staffing profile and skills sets aligned to the organisation's strategic direction over the next few years.

53. VisitScotland is in a period of transition as it moves towards a more digital focus for the provision of information to visitors and businesses, and for marketing activity. The organisation has acknowledged it will require a fundamental re-profiling of staff skills and numbers and is in the process of assessing its future capabilities.

54. We concluded there remains a risk that VisitScotland may be unable to deliver its corporate strategy due to skills gaps in key areas. An organisation-wide workforce plan would support the achievement of the organisation's corporate objectives and bring together the plans of individual service departments to ensure the organisation has the necessary staff resource in place to deliver its key priorities.



Recommendation 2

An organisation-wide workforce plan would support the achievement of the organisation's corporate objectives and bring together the plans of individual service departments to ensure the organisation has the necessary staff resource in place to deliver its key priorities.

Part 4

Governance and transparency



Main judgements

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

VisitScotland has taken significant steps to improve the presentation and content of its annual report and financial statements.

There is scope to increase openness and transparency in the way VisitScotland conducts its business.

Governance arrangements

55. 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 eight times throughout 2017/18 and experienced a period of stable membership throughout.

56. In April 2017, VisitScotland widened its operational senior management team and established a Leadership Group. The Leadership Group comprises the Chief Executive, department Directors and senior members of staff from across the organisation.

57. In addition to providing leadership and strategic direction, an important role for all boards in the public sector is the scrutiny of risk, financial management and performance. The role of the Chair is to ensure that all board members are enabled and encouraged to contribute to discussions.

58. In 2018 we attended the budget-setting board meeting to observe scrutiny, assess the effectiveness of relationships and standards of conduct. We found that board members and management understand the distinct nature of their roles and there is evidence of constructive working relationships between them. Most board members contributed fully to the discussion and demonstrated effective scrutiny.

Transparency

59. 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. As we reported in our 2016/17 annual audit report, VisitScotland's board minutes are published on its website but board and committee papers and committee meeting minutes are not available publicly. We recommended that VisitScotland should consider if there was scope to enhance transparency by reviewing the availability of board papers and committee papers and minutes.

60. Since then, the board reviewed the information that is made publicly available and agreed to extend this to include several policy and framework documents.

61. While we accept that some items of business require to be discussed in private, in our opinion VisitScotland should continue to keep this area under review. For example, there may be scope to make available board papers which are not confidential, such as budget monitoring and performance management reports.

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.

Committee minutes could also be made available, subject to any confidential items being withheld or redacted.

62. During 2017/18 VisitScotland reviewed the form and content of its annual report and accounts, to provide better information about its activities and performance and to make them more accessible to stakeholders, including the public. This is a positive development and represents a contribution to enhanced transparency

Internal audit

63. The internal audit function is carried out by a firm of accountants. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. We carried out an assessment of the internal audit function and concluded that it has sound documentation standards and reporting procedures and operates in accordance with Public Sector Internal Audit Standards (PSIAS).

64. In planning our audit work, we considered the findings of internal audit's reports on their review of core financial systems, including payroll. As part of our wider dimension work, we considered internal audit's reviews of stakeholder engagement, workforce management and IT disaster recovery.

Governance Statement

65. HM Treasury's Financial Reporting Manual (the FReM) states that organisations such as VisitScotland must prepare an annual governance statement within the annual report and financial statements. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies.

66. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents an adequate summary of governance arrangements and related matters.

National Fraud Initiative

67. 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.

68. VisitScotland actively engages with the NFI exercise by submitting the required data sets, investigating matches and updating the NFI website. The results are reported to the Audit and Risk Committee. As we reported in our 2016/17 annual audit report, management investigated all 465 matches and reported the results to the Audit and Risk Committee in September 2017. No evidence of fraud was found.

Standards of conduct for prevention and detection of fraud and error

69. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

70. Based on our review of the evidence we concluded that VisitScotland has appropriate arrangements in place for the prevention and detection of bribery and

corruption. We are not aware of any specific issues that we need to bring to your attention.

Cyber security

71. We reviewed the steps VisitScotland has taken to manage cyber security risks, and its related governance and risk management arrangements.

72. VisitScotland is a member of the Scottish Government's Public Sector Cyber Catalyst scheme, which involves it working towards exemplar status in cyber resilience. It has established a Cyber Resilience Group and developed an action plan which mirrors the 11 key actions set out in the Scottish Government's Cyber Resilience Action Plan. Progress on the plan, and cyber-security issues, are regularly reported to the board.

73. VisitScotland is developing cyber-specific disaster recovery plans and has acted to promote a culture of cyber-resilience across the organisation. We conclude that VisitScotland has a structured and effective approach to managing cyber security risks.

General Data Protection Regulation (GDPR)

74. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in VisitScotland incurring significant fines.

75. In August 2017, VisitScotland's Data Governance and Security Group developed a GDPR Action Plan to ensure that the organisation complied with the new requirements. The plan identified key actions necessary, assessed RAG timescales and assigned actions to owners. Updates and outcomes from the plan were regularly reported to the Audit and Risk Committee throughout 2018.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
1 (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. Management should build on this and create a standalone financial strategy, which pulls together all key relevant financial information. Without this, there is a risk that relevant information is not accessible for key decision-makers.</p>	<p>Management should further develop their medium to longer-term financial plans against the findings of the 'Scotland's public finances' report, which sets out the important elements that should feature in an overarching financial strategy.</p>	<p>Management accepts point and will prepare a standalone financial strategy.</p> <p>Responsible officer: Head of Finance</p> <p>Revised date: 31 March 2019</p>
2 (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. As at August 2018, 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>Management accepts point and will prepare a complete workforce plan for the organisation following the implementation of the fully integrated ERP solution.</p> <p>Responsible officer: Head of HR</p> <p>Revised date: 31 March 2019</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 accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that auditors consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Detailed testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>ISA240 requires auditors to presume a risk of fraud where income streams are significant. VisitScotland receives in excess of 10% 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>	<p>Walk-through of controls over receivables and payables.</p> <p>Reliance on internal audit's review of key financial systems.</p> <p>Review of VisitScotland's arrangements to prevent and detect fraud.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p> <p>Detailed cut-off testing of income and expenditure streams.</p>	<p>Our review of financial systems did not identify any issues with VisitScotland's revenue recognition procedures.</p> <p>We substantively tested a sample of income transactions. No issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>3 Estimations and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and non-current assets due to the extent of assumptions actuaries and valuers use in their calculations. This represents an increased risk of material misstatement in the financial statements.</p> <p>Additionally, as outlined in risk 5 below, significant pension liabilities could become payable in the future and this creates a risk that appropriate disclosures are not made in the financial statements this year.</p>	<p>Completion of 'review of the work of an expert' for the actuaries and professional valuers</p> <p>Review of accounting estimates, pension and non-current asset disclosures and any contingent liabilities.</p> <p>Focused testing of non-current assets and pension disclosures, including data that VisitScotland provides to pension administrators and the actuary.</p>	<p>We reviewed the valuations of non-current assets and IAS 19 disclosures, which were prepared by management's experts.</p> <p>We are satisfied that the revised amounts and disclosures in the accounts reflect the reports from management's experts.</p>
<p>Business Transformation</p> <p>On 12 October 2017, VisitScotland announced the implementation of its visitor information strategy, representing a major development of a key element of VisitScotland's business. The implementation plan is phased over two years and covers a planned reduction in the staffed estate from 66 to 26 visitor centres, with a reduction of 20 expected by the end of March 2018. This is likely to have an impact on the carrying value of non-current assets and accounting for staff reductions. There is a risk that amounts and disclosures are not properly reflected in the financial statements.</p>	<p>Focused testing of relevant account areas such as any provisions, severance costs, capital transactions, leases, revaluations and reserves balances.</p>	<p>We are satisfied that these matters have been properly disclosed in the financial statements.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>4 Pensions liabilities</p> <p>VisitScotland participates in twelve Local Government Pension Schemes, the majority of which have reducing membership. There is a risk that significant liabilities could become payable when there are no longer any active members paying into the schemes. In addition, there is continued uncertainty around the valuation of the British Tourism Board pension</p>	<p>Monitor and assess progress against on-going resolution of pension scheme issues.</p>	<p>VisitScotland is continuing to take steps to seek a satisfactory resolution to ongoing pension liability uncertainties, refer paragraph 47.</p>











Audit Risk	Assurance procedure	Results and conclusions
<p>scheme, creating a risk that annual employer contributions may increase and therefore result in increased financial pressures for VisitScotland.</p>		
<p>5 Financial sustainability</p> <p>In our 2016/17 annual audit report, we recommended that VisitScotland creates a medium to long-term financial strategy to support the organisation's corporate plan. Management started the process by presenting various scenarios to the board but in the meantime there remains a risk that VisitScotland 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.</p>	<p>Review of robustness of any medium to long-term financial strategy and plans.</p> <p>Review and assessment of scenario planning.</p> <p>Review board papers and minutes to assess board level consideration and oversight of long-term financial planning.</p>	<p>Refer Appendix 1</p>
<p>6 Workforce planning</p> <p>Following from our 2016/17 annual audit report recommendation, VisitScotland is developing an integrated organisation-wide workforce plan. Until this is developed, the risk remains that VisitScotland may be unable to deliver its corporate strategy due to skills and capacity gaps in key areas.</p>	<p>Review and assessment of VisitScotland's progress in creating a workforce plan.</p> <p>Consideration of internal audit's review of workforce management.</p>	<p>Refer Appendix 1</p>
<p>Openness and transparency</p> <p>In our 2016/17 annual audit report we recommended that VisitScotland considers the scope to enhance transparency, for example by reviewing the availability of board papers and committee papers and minutes. The board agreed to publish additional information under the publication policy but considers that board papers and committee papers and minutes should not be made publicly available. With increasing public expectations for more openness in the conduct of public business, there remains scope for VisitScotland to enhance transparency of its business.</p>	<p>Consider VisitScotland's review of its publication policy.</p> <p>Review disclosures in the 2017/18 financial statements.</p>	<p>VisitScotland has taken significant steps to improve the presentation and content of its annual report and financial statements</p> <p>We will keep this area under review, and identify any further opportunities for enhancing openness and transparency. Refer paragraph 60.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Implementation of Enterprise Resource Planning System (ERPS)</p> <p>VisitScotland is procuring an integrated finance, procurement and HR system. Managed effectively, information and communication technology (ICT) projects can deliver benefits and efficiencies. There are significant inherent risks associated with managing such ICT projects. These include risks of not delivering on time and to budget, not realising the intended benefits and adverse impact on the consistency and integrity of financial reporting capability.</p>	<p>Monitor the arrangements VisitScotland puts in place to implement and oversee this project, taking account of internal audit involvement.</p>	<p>We note that the Audit & Risk Committee has received regular updates on progress from the project team, and in June 2018 it was reported that the project was progressing according to projected timelines and budget. Internal audit is due to report its findings during 2018/19. Refer paragraphs 37 and 38.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

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