KPMG

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

VisitScotland

Annual audit report to VisitScotland and the Auditor General for Scotland

Year ended 31 March 2009

29 September 2009

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

The contacts at KPMG in connection with this report are:

David Watt
Director
Tel: 0141 300 5695
Fax: 0141 204 1584
david.watt@kpmg.co.uk

Ally Taylor
Senior Manager
Tel: 0131 527 6813
Fax: 0131 527 6666
ally.taylor@kpmg.co.uk

Brian Curran
Manager
Tel: 0141 300 5631
Fax: 0141 204 1584
brian.curran@kpmg.co.uk

Richard McCallum
Audit in-charge
Tel: 0131 622 7031
Fax: 0131 527 6666
richard.mccallum@kpmg.co.uk

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* (*"the Code"*).

This report is for the benefit of only VisitScotland and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

Homecoming Scotland 2009, a programme of nearly 400 events, festivals and activities began on Burns Night and will run to St. Andrew's Day. A ring-fenced allocation of £5 million is being spent over the 2008-09 and 2009-10 financial years. Arrangements and controls have been established to approve and monitor spend against this ring-fenced budget, which are similar to those that continue to operate in EventScotland. The performance of *Homecoming Scotland 2009* against its aims and objectives will be reviewed, in conjunction with external consultants, before the end of the 2009-10 financial year.

Financial budgeting and management arrangements continue to operate as intended. Financial reports to the board during the year demonstrate management action in response to lower than planned income and changes in expenditure profile and ultimate achievement of the balanced budget, before taking into account the impact of the acquisition and consolidation of eTourism Limited.

The need to improve the commercial viability of service delivery and increase the flexibility of services provided by eTourism Limited resulted in VisitScotland acquiring the remaining shares in the company on 15 December 2008 for £64,000. The financial outturn for the year includes a charge of £506,000 to reflect VisitScotland's share of eTourism Limited's losses and amortisation of goodwill recognised on acquisition. The cumulative outturn against financial targets is a surplus of £104,000 (2007-08: £2.6 million deficit). The outturn changed significantly between the draft and final financial statements due to amendments required as a result of the complexity of calculations and accounting treatment associated with the acquisition of eTourism Limited and its change in status from an associate to a subsidiary during the financial year.

The 2009-10 financial plan forecasts a breakeven position, but highlights key risks in relation to the receipt of local authority and retail income. Total income is anticipated to reduce by £3.6 million, with a direct impact on planned expenditure. In addition, recurring savings of 2% will be required in addition to maintaining the £1.8 million of savings achieved in 2008-09. Financial plans for 2009-10 reflect eTourism Limited's forecast profits of £608,000, of which £592,000 was reported during the period to 31 August 2009.

Management arrangements to ensure compliance with Scottish Government and other regulatory bodies have been enhanced. In particular, robust procurement arrangements are now an important element in VisitScotland's responsibilities for ensuring compliance with all relevant guidance over financial transactions, including compliance with European Union obligations.

Performance management continue to operate as intended and reporting of underachievement of targets has been strengthened in response to previous recommendations. Targets are aligned to the strategic objectives and include financial, visitor satisfaction, and conversion rate (enquiries to visitors) targets, but achievement was limited to six of the eleven targets, primarily, in management's view, to the impact of the economic climate.

Corporate information, including board minutes and corporate plans, is available on VisitScotland's website. Inclusion of board papers alongside board minutes would comply with good practice and allow members of the public greater insight into the background and source of decisions being made.

Scope

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*). This specifies a number of objectives for our audit.

Audit framework

This year was the third of our five-year appointment by the Auditor General for Scotland as external auditors of VisitScotland. This report to VisitScotland and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee on 30 April 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management** and VisitScotland's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine Best Value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). Audit Scotland is developing a series of toolkits that auditors are using from 2008-09 and which could be used in conjunction with VisitScotland in coming years.

Responsibilities of VisitScotland and its auditors

External auditors do not act as a substitute for VisitScotland's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing recommendations for development or improvement identified during our audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by staff during the course of our work.

Background – overview of activities

Overview of activities

A focus for management and the board during the year has been *Homecoming Scotland 2009*, a programme of nearly 400 events, festivals and activities began on Burns Night and will run to St. Andrew's Day. *Homecoming Scotland 2009* received a ring-fenced allocation of £5 million from the Scottish Government. VisitScotland planned that, over the course of the year, *Homecoming Scotland 2009* would encourage people with Scottish ancestry or simply a love for Scotland to come back to celebrate the nation's culture and heritage. In partnership with an external consultancy firm, performance targets were set for *Homecoming Scotland 2009* and the results will be considered as *Homecoming Scotland 2009* draws to a close in the coming months.

Significant changes were made to the ownership and management structure of eTourism Limited, which was purchased outright by VisitScotland on 15 December 2008. This change took place to improve the commercial viability of service delivery and to adapt more flexibly to consumer trends and tourism industry needs. VisitScotland purchased the shares in eTourism Limited it did not already own for £64,000 following the outgoing shareholders' agreement to forgive £3.2 million of loans due by eTourism Limited. An income and expenditure forecast for eTourism Limited has been developed until 2012 detailing the longer term financial plans of the company.

In light of the current economic climate, VisitScotland faces a number of financial challenges. Management anticipates decreases in both Scottish Government funding and local authority funding over the next few years. Other income sources, such as retail and commercial income, could also be impacted by adverse economic conditions. Identifying and delivering efficiency savings is key to VisitScotland's financial strategy. Savings of £1.8 million in 2008-09 exceeded the Scottish Government target for the year of £1.2 million. A large factor in securing these savings was the re-organisation in 2007-08, with around £1 million of savings in staff costs achieved in 2008-09 as a result of this exercise.

Performance management continues to play an important role. A range of key performance indicators were developed and outlined in VisitScotland's corporate plan. Discussion of progress against objectives is a standing item on the board agenda. Performance targets are aligned to the strategic objectives and include financial, visitor satisfaction, and conversion rate (enquiries to visitors) targets. In addition, VisitScotland continues to work closely with key partners in several areas, such as the strategic forum and the business planning alignment group.

Financial statements

We have issued an unqualified opinion on the financial statements and the regularity of transactions reflected in those financial statements.

Key issues arising from our audit of the financial statements were:

- eTourism Limited – the financial statements reflect the acquisition of eTourism Limited during the financial year.
- Financial position – a balanced outturn against budget was achieved despite decreases in funding from local authority and the impact of the economic climate on retail income.
- Local authority funding – income was lower than anticipated and £130,000 had not been received by 31 August 2009. Weaknesses were also identified in the arrangements for ensuring service level agreements are signed in a timely manner.
- Valuation of property portfolio – the interim valuation at 31 March 2009 was incomplete, but we agree with management's view that this does not have a significant impact on the reported position.

Controls are in place to monitor guidance received and subsequent action taken.

Plans are in place to prepare the shadow IFReM compliant financial statements.

Recommendations

The action plan includes recommendations to improve the following areas.

Area for development	Action plan reference
Arrangements around agreement and receipt of local authority funding should be strengthened.	One
Future property valuations should include all properties.	Two

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with VisitScotland's timetable, draft financial statements were available at the beginning of the audit fieldwork on 3 August 2009. This allowed for timely completion of the audit and consideration and approval of the financial statements by the audit committee on 24 September 2009. While the audit process was smoother than in prior years, the majority of audit queries needed to be addressed by one member of the finance team and this caused some delays in the process.

Audit opinion

Following board approval on 21 October 2009 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report five key risk areas. We have concluded our work in this area and summarise the results below.

Key risk area	Conclusions
Acquisition of eTourism Limited	On 15 December 2008 VisitScotland completed its acquisition of eTourism Limited. VisitScotland purchased the shares in eTourism Limited in did not already own for £64,000. An additional £1.2 million was loaned to eTourism Limited to facilitate payments to outgoing shareholders in respect of loans due. These shareholders forgave loans of £3.2 million. eTourism Limited has repaid £250,000 of the £1.2 million loan since the financial year.
Local authority funding	In 2008-09, VisitScotland's target was to receive £5.85 million of funding from local authorities. Actual income received was £5.61 million, 4% behind target. Underachievement of this target is due to increasing funding pressures faced by local authorities. Four local authorities had, at August 2009, not yet paid outstanding balances of £130,000 in relation to the 2008-09 financial year. Management believe that service level agreements with each of these councils eliminates the risks around recoverability. We reported in our interim management report that there was a number of service level agreements with local authorities that were not agreed in a timely manner during the year, increasing the risk that VisitScotland does not receive budgeted income. Management should review the current process for agreeing payments and specific timescales for the receipt of agreed funding on an annual basis. ***Recommendation one***

Audit opinions and key issues (continued)

Key risk area	Conclusions
Financial position	During our interim fieldwork, we updated our understanding of the financial and budgetary control systems at VisitScotland. Board minutes and finance papers demonstrate that financial reports continue to be considered by the board on a regular basis. In the last month of the financial year, daily and weekly reports were produced to monitor any significant variances against budget and ensure a break-even position at the year-end. The month 12 financial report showed a break-even position and is summarised below. **£ millions** **Month 12 management accounts** Total expenditure (67.7) Commercial and other income 19.9 Grant-in-aid funding 47.8 **Under/(over) spend -** Going forward, total planned expenditure for 2009-10 reported in the 2009-12 corporate plan is £69.3 million. The decrease in spend largely reflects the fact that management recognises that income streams will reduce, with Scottish Government funding and local authority funding below that received in 2008-09, while the economic climate is likely to impact on achievement of retail and commercial income targets.
Outcome of 2008 *Customer First* re-organisation	The re-organisation was completed in the early months of 2008-09 and there are no significant issues remaining. During the course of 2008-09, internal audit reviewed the re-organisation project and concluded that human resources and communication processes, along with the voluntary redundancy programme undertaken as part of the *Customer First* project, were robust and satisfactory. No recommendations arose during this post re-organisation review. The 2008-09 financial statements reflect a small amount of voluntary severance payments agreed in 2008-09 and the balance sheet continues to include provisions to reflect liabilities due as a result of decisions to end a number of building lease agreements.

The month 12 summary table:

	£ millions
Month 12 management accounts	
Total expenditure	(67.7)
Commercial and other income	19.9
Grant-in-aid funding	47.8
Under/(over) spend	**-**

Audit opinions and key issues (continued)

Key risk area	Conclusions
EventScotland and *Homecoming Scotland 2009*	As part of our interim fieldwork we updated our understanding of the nature of the grant funding for *Homecoming Scotland 2009*, how this would be allocated and also how EventScotland ensured appropriate assessment of applications for *Homecoming Scotland 2009*. We made recommendations to improve the formality of the declaration of interest process during consideration of *Homecoming Scotland 2009* grants, and to ensure that management obtained formal confirmation from the Scottish Government over the flexibility of using the £5 million ring-fenced allocation over two financial years. Management addressed these recommendations by arranging for panel members to complete declaration of interest forms at future meetings and by obtaining appropriate consent from the Scottish Government that timing differences between spend and funding were acceptable. In addition, we considered how money had been spent and noted that *Homecoming Scotland 2009* expenditure was broadly in line with budget. Given the significant ring-fenced public funding for this programme, it is important management take appropriate steps to analyse *Homecoming Scotland 2009*'s performance against original expectations and objectives. Management intends that measurement will be against the four core aims: • deliver additional tourism visits and revenue for Scotland; • engage and mobilise the Scottish Diaspora; • promote pride in Scots at home and abroad; and • celebrate Scotland's outstanding contribution to the world. For each aim, measurable objectives were established, along with the methods and systems that will be used to capture findings. Following a European tender process, an external consultancy firm were appointed to provide support in the performance review process.

We identified one additional risk area for action by management in future years.

Property revaluations

Accounting standards and the Financial Reporting Manual issued by HM Treasury require that VisitScotland revalues its properties every five years. In addition, an interim valuation is required three years after each full valuation. Following the last full valuation in 2006, management engaged external valuers to provide an interim valuation at 31 March 2009. A number of properties were not included in this revaluation process, but management did not consider the potential change in value of these properties to be significant. We do not disagree with this view and the financial statements have not been amended in this respect. In 2010-11 it is important that management ensure appropriate arrangements are made in a timely manner and require VisitScotland's external valuer to value all properties owned at 31 March 2011. Accounting standards require that this valuation is based on a site visit to all properties.

Recommendation two

Regularity

Regularity of transactions

We updated our understanding of the framework under which VisitScotland operates and reviewed the design, implementation and operating effectiveness of the controls over project initiation, appraisal and approval of VisitScotland projects, and controls over European Union funded expenditure. We also tested a sample of EventScotland and *Homecoming Scotland 2009* awards and considered the design, implementation and operating effectiveness of controls over authorisation and documentation. We did not identify any weaknesses in controls or instances within our sample where controls were not operating as intended.

Electronic records are maintained by the audit and compliance manager to record guidance received from external organisations, including the Scottish Government and Audit Scotland. In response to our recommendation in 2007-08, the audit and compliance manager documents the responsible officer for each circular together with the required action, associated timescale and confirmation that appropriate action was taken.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration and procurement, and did not identify any instances of non-compliance.

Implementation of International Financial Reporting Standards

The 2007 Budget had announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"), from 2008-09. Following consultation with Government departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 as announced in the 2008 Budget.

Central government bodies will be required to prepare their financial statements on the basis of the IFReM from 2009-10. Shadow IFReM financial statements, including an opening balance sheet, will be required for 2008-09. The shadow IFReM financial statements were subject to a 'dry run' audit in accordance with timescales prescribed by the Scottish Government. The timescales are set out in the table below.

	Presented for audit	Completion of dry-run audit
Opening 2008 IFRS based balance sheet	28 November 2008	28 February 2009
2008-09 shadow IFRS based financial statements	30 November 2009	28 February 2010

As a result of consideration of the opening balances a report was issued to management highlighting the work done, our findings and areas for further work by management. Our work was undertaken in accordance with guidance included in Audit Scotland's note for guidance 2008/6: *Auditors' role in the implementation of international financial reporting standards*. We highlighted as part of the work performed that management should consider to detailed revisions to accounting policies as part of the restatement of the 2008-09 financial statements. Management has obtained additional support in completing the required work by employing an external consultant whose primary role has been to prepare the shadow IFRS based financial statements.

Our work on the 2008-09 shadow IFReM based annual financial statements will be performed as part of our 2009-10 audit.

Use of resources

Total expenditure decreased by £3.8 million compared to 2007-08. The outturn against financial targets is a surplus of £104,000 (2007-08: £2.6 million deficit). The 2009-10 financial plan forecasts that a balanced budget based on £69.3 million of expenditure. This represents a decrease of £3.6 million compared to 2008-09, reflecting anticipated reductions in Scottish Government funding and expected income.

eTourism Limited reported a loss for the 15 month period to 31 March 2009 of £656,000. Financial plans for the period to 31 December 2009 forecast profits of £592,000, of which £562,000 was reported during the period to 31 August 2009.

VisitScotland places great emphasis on a culture of reward based on individual and organisational performance, robust management practices and continuous development. As an *Investor in People* management ensures all staff are clear on their roles and how they play their part in business delivery.

Robust procurement arrangements are now an important element in VisitScotland's responsibilities for ensuring compliance with all relevant guidance over financial transactions, including compliance with European Union obligations.

The audit and compliance manager receives national reports from Audit Scotland and is responsible for evaluating relevance to VisitScotland. Where deemed appropriate, the report will be discussed with relevant personnel and an action plan developed to put in place the study's recommendations.

Recommendations

We did not identify any significant recommendations for development of VisitScotland's arrangements to manage the use of resources.

Financial management

Financial position

Monthly income and expenditure reports are monitored throughout the year in order to manage any significant under / over spends. The table below shows that, at the beginning of the year, VisitScotland was forecasting a small surplus. Although this position was maintained through to the month 12 management accounts, there were movements on several budget categories as detailed below. The economic climate contributed to retail and commercial income falling significantly behind budget. This was partly offset by an increase in other income, where actual receipts of £10.3 million exceeded the budget of £8.3 million. Advertising costs increased, primarily relating to *Homecoming Scotland 2009,* but a number of cost categories were behind budget, including staff costs (£0.4 million), support grants (£0.6 million) and promotion (£0.5 million).

Movement	£000s	Movement	£000s
Budget surplus in the financial plan	**11**	**Month 12 management accounts surplus**	**7**
Decrease in retail and commercial income	(1,255)	Share of associate profit during the year	267
Decrease in local authority funding	(240)	Share of associate exceptional profit	1,683
Decrease in staff costs	427	Other year-end adjustments	314
Increase in advertising costs	(1,121)	**Draft financial statements surplus**	**2,271**
Decrease in other non-pay expenditure	2,186	Amendments on consolidation of eTourism Limited	(2,303)
-	-	Other adjustments processed by management	136
Month 12 management accounts surplus	**7**	**Outturn per final financial statements**	**104**

The table above demonstrates that management reacted to a number of significant variances in both income and expenditure during the financial year and achieved the budgeted outturn before adjustments to reflect the acquisition of eTourism Limited and subsequent consolidation. Calculation of goodwill and consolidation of eTourism Limited as an associate for the period to 15 December 2008 and subsequently as a subsidiary for the period to 31 March 2009 was complex and the audit process identified a number of adjustments.

The outturn for the financial year includes a cumulative charge of £506,000 arising from the acquisition and consolidation of eTourism Limited:

- VisitScotland's 36% share of eTourism Limited's loss for the period to 15 December 2008 (£181,000);
- VisitScotland's 100% share of eTourism Limited's loss for the period to 31 March 2009 (£153,000); and
- amortisation of goodwill recognised on the acquisition of eTourism Limited (£172,000).

Financial management (continued)

Financial management and budgetary control

The director of corporate services is responsible for the budget setting process. Performance against budget is reported to the board on a regular basis. There are a variety of ways in which information is monitored and reported to management, including *ad hoc* reporting, quarterly balance sheet reporting and mid-year reviews.

At an operational level, all budget holders can view their income and expenditure position and other commitments at any time on the financial ledger. Formal budget monitoring reports are issued to budget holders on a monthly basis. Budget reports show the budget and the actual spend to date, variances between budget and actual, the annual budget, committed expenditure and the remaining budget. Business analysts are responsible for obtaining explanations for any significant variances. These are collated by the budgetary control manager who prepares a summary financial report to the board.

For 2009-10, achievement of the balanced budget forecast relies on efficiency savings being achieved. Income is forecast to be lower than 2008-09, with management expecting a fall in both retail income and grant funding. Management aims to increase commercial income, but this may be challenging in the current economic climate.

Local authority funding

As part of the risk analysis in the 2009-12 corporate plan, management identifies that a reduction in local authority funding could have an impact on the existence of and services provided by regional and tourist information centre operations. Associated mitigating actions identified by management include:

- increasing accountability to local authorities for their investment by linking funding to deliverable outcomes;
- developing links with local authorities through the Convention of Scottish Local Authorities, Scottish Local Authorities Economic Development Group, National Convention on Tourism and Area Tourism Partnerships;
- reviewing local information delivery with local authorities and others to ensure best use of public funds; and
- improving engagement with local authorities through specialist strategic relations and regional business development teams.

VisitScotland's future financial plans reflect risks in forecast levels of funding from local authorities. The expected decrease in 2009-10 is £1.3 million to £4.3 million (2008-09: £5.85 million). Internal audit reviewed local authority funding processes and, while they did not identify any high level risks, the report highlights several recommendations, including the importance of VisitScotland developing an action plan outlining how the organisation will engage with local authorities. Delivering on these recommendations should mitigate some of the risks of reduced income.

Efficiency savings

The Scottish Government issued the *efficient government programme for 2008-09 – 2010-11*, which provides details on the background, its application in various sectors, the types of savings and the method of reporting efficiencies. VisitScotland had a target to deliver 2% (£1.2 million) of cash releasing efficiency savings in 2008-09. Savings were achieved of £1.8 million, largely through impact of the *Customer First* restructuring programme initiated in 2007-08, which delivered recurring staff savings in 2008-09 of £1.0 million. Additional savings were also achieved through procurement (£0.6 million) and property co-location (£0.1 million). Further reductions of at least 2% per annum will be required in the next two years. Management regularly reports progress against this target the board.

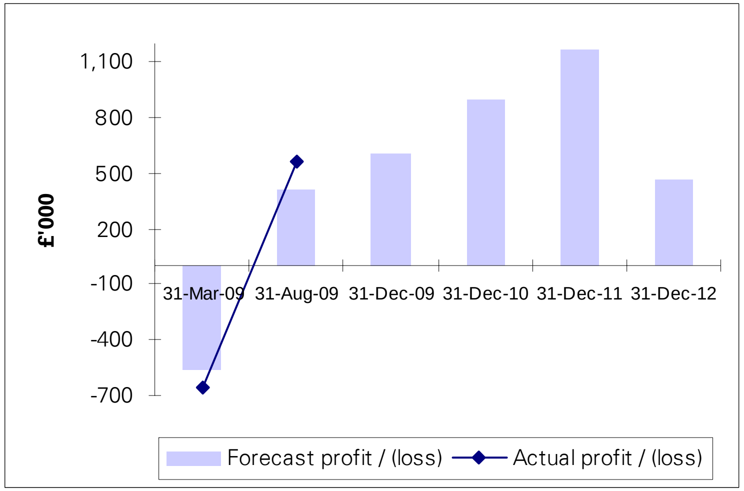
Financial management (continued)

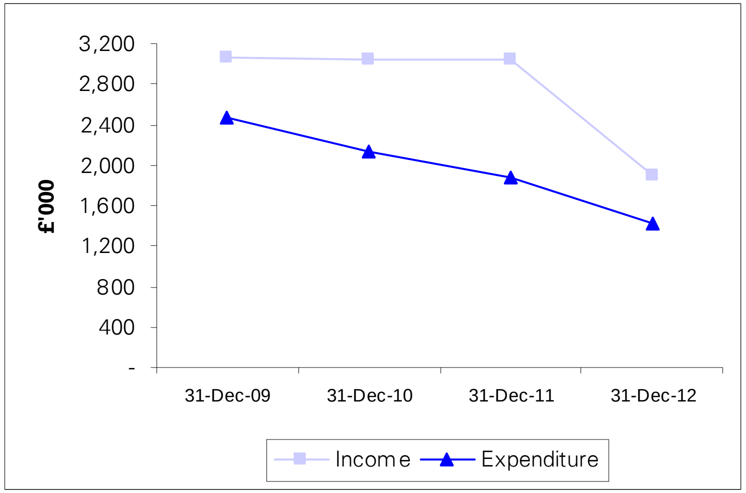
eTourism Limited

Management's internal and unaudited reporting of eTourism Limited's financial performance for the first five months of 2009-10 (to 31 August) highlights a profit of £562,000 against a plan of £392,000. This was achieved through total income of £1,532,000 (5.9% above the plan of £1,447,000) and total expenditure of £970,000 (8% behind the budget of £1,055,000). Increased income reflects a prudent budget that over-estimated the potential impact of the economic downturn, offsetting higher than anticipated staff salaries and benefits cost, which are subject to ongoing review.

Management has prepared a detailed forecast – monthly to December 2009 and annual thereafter - to 2012, when management anticipate that net shareholder funds will not longer be in deficit. The financial forecasts are not subject to audit.

The graphs below highlight the variance between actual results and forecasts for the period to 31 August 2009, together with the forecast profits to 31 December 2012, and, secondly, the anticipated profile of income and expenditure over the forecast period.





The four-year financial forecasts include balance sheets and cash flow statements. Management anticipate that eTourism Limited's net shareholders' funds will become positive in 2011 and remain so during 2012. The forecast indicates that eTourism Limited will have net current assets throughout the financial planning period, but the forecast net current assets of £455,000 at 31 March 2009 is significantly higher than the net current assets of £32,000 reported in the financial statements. The cash flow forecasts reports that eTourism Limited will not require an overdraft, although the minimum balance during some months in 2009 is a low as £4,000.

Medium-term financial planning, including income, expenditure, balance sheets and cash, demonstrates management's commitment to the financial success of eTourism Limited. While it is relatively early in terms of the implementation of the revised strategy for eTourism Limited, early results suggest improvements on previous performance. Management should continue to follow a process of regular monitoring and re-forecasting during the financial year.

Financial management (continued)

Financial planning

In March 2009 the board approved the 2009-12 corporate plan, which includes a balanced budget for 2009-10. Summarised below is VisitScotland's planned expenditure in 2009-10, including a comparison to the original 2008-09 budget (pre re-organisation).

£ million	**2009-10 plan**	2008-09 plan
Visitor engagement	39.9	43.9
Business engagement	7.4	7.5
Strategy partners	4.1	2.2
Corporate services	7.0	7.5
EventScotland	7.0	7.0
Homecoming Scotland 2009	2.6	2.5
Capital	1.3	2.3
Total planned spend	**69.3**	72.9

Expenditure to 30 June 2009 totalled £14.5 million, amounting to 20.9% of the planned spend for 2009-10, which is broadly in line with the spend profile in previous years.

Management arrangements

Workforce management

VisitScotland places a great emphasis on a culture of reward based on individual and organisational performance, robust management practices and continuous development. As an *Investor in People* management ensures all staff are clear on their roles and equipped to deliver business objectives. Performance and reward strategies aim to ensure that VisitScotland motivates its people based on their contribution and these strategies are reviewed and refreshed within the context of Scottish Government guidelines.

Management believes that effective employee communications and engagement enhances productivity, reduces absence and improves customer relationships. VisitScotland is committed to open, timely and effective employee communications using both electronic media and face to face dialogue. In the 2008-09 financial year a series of 'one-team' talks were held to highlight the new structure of the organisation. An all-staff conference was also held, which was designed to outline responsibilities, motivate staff and allow discussion of key matters. VisitScotland's human resource team manages all employee and industrial relations, with the organisation recognising both the Public and Commercial Services Union (PCS) and Unison trade unions. The human resource team manages all employee relations issues, both formal and informal, and designs and supports all major change programmes.

Procurement

Compliance with all relevant guidance over financial transactions, including compliance with European Union obligations, continues to be an important part of the procurement process for VisitScotland. We tested a sample of significant contracts awarded in 2008-09 and did not identify any errors in the design or operation of controls or compliance with tendering guidance. Satisfactory tendering arrangements were in place for a sample of contracts with a value over the EU threshold, including advertising in the Official Journal of the European Union and appropriate pre-qualification questionnaires and tendering documents.

Partnership working

The Scottish Government actively encourages public sector bodies to work closely together to ensure that there is an integrated approach to meeting the objectives of its economic strategy. The chief executive has a specific responsibility to ensure that arrangements have been established to secure Best Value. Joint working is one of nine key characteristics of Best Value and was one of the drivers in the *Customer First* restructuring programme.

There are several bodies with which VisitScotland enjoys close partnership working, most notably Scottish Enterprise, Highlands and Islands Enterprise and the Convention of Scottish Local Authorities. Management has a number of significant partnerships, including;

- close collaboration with partners on the Strategic Forum, including Scottish Government, Highlands and Islands Enterprise, Scottish Enterprise, Skills Development Scotland and the Scottish Funding Council. This partnership group is in place so as to provide clear ministerial leadership and promote greater integration and collaboration;
- a business planning alignment group to discuss business planning in detail so as to identify where strategic alignment is appropriate and how it can achieved. Like the strategic forum, this group also includes a number of VisitScotland's key partners;
- the development of single outcome agreements with community planning partnerships, under the leadership of local authorities, which offers a significant opportunity for VisitScotland to help deliver local services to achieve benefits at a local level; and
- working closely with the Scottish Government Tourism Unit and the Scottish Tourism industry on 'tourism intelligence Scotland', a key initiative in supporting the industry to achieve 50% growth target set out in the Tourism Framework for change.

Governance and accountability

The statement on internal control does not disclose any significant weaknesses. The content of the statement is consistent with our understanding of VisitScotland.

Internal audit has completed its agreed plan for the year and concluded that the work carried out identifies a 'satisfactory' level of assurance in the areas reviewed.

The majority of key financial controls are designed appropriately and operating effectively.

The Board has a fraud response plan in place to encourage staff to bring suspected frauds to notice and to ensure that prompt and effective action is taken. Where management are made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation.

Management established informal procedures to consider individual Audit Scotland national reports.

The expenses policy should be reviewed to mitigate the risk of different interpretations of 'reasonable' expenses.

Recommendations

The action plan contains one recommendation for development in performance management arrangements.

Area for development	Action plan reference
The expenses policy should provide upper limits or, as a minimum, guidelines amounts for items such as travel and subsistence rather than continued use of 'reasonable'.	Three

Corporate governance arrangements

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, VisitScotland is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- VisitScotland's review of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

The Scottish Ministers appoint non-executive board members who do not hold contracts with VisitScotland. Subject to financial limits, a memorandum of delegated authority gives the chief executive authority for all functions. Where the board has delegated responsibility or decision-making power to the chief executive or a sub-committee, this is included in a memorandum of delegated authority or the terms of reference for the relevant sub-committee. There are three sub-committees: audit, remuneration and EventScotland.

We considered the corporate governance arrangements, which, combined with the work of internal audit, have concluded that the corporate governance framework has been designed and implemented appropriately. We reported in 2007-08 that non-executive directors had expressed in a board survey that board papers needed to express more clarity. From a review of board minutes and papers it was not apparent that papers had changed significantly in scope or style. This is an area for continued consideration and subsequent action in 2009-10.

In addition to VisitScotland's routine risk management processes, separate risk registers exist for *Homecoming Scotland 2009* and the acquisition and continued management of eTourism Limited. The registers demonstrate a commitment to good practice in managing specific or high risk areas and both registers appear to consider the key risks expected.

VisitScotland has a detailed expenses policy and requires all expenses to be authorised by an individual's line manager. The policy covers expected areas, including accommodation, travel and subsistence, but does not set upper limits for costs in each of these areas. In the majority of circumstances the policy states that 'reasonable' costs of meals etc. will be reimbursed. Testing of the policy's operation on a sample basis confirmed that the policy is operating as intended. However, the use of 'reasonable' rather than defined limits or, as a minimum, guidelines amounts creates a risk that different interpretations of 'reasonable' may impact on an outsider's perspective of expenses reimbursed. We suggest that these matters are considered in a future review of the policy.

Recommendation three

Corporate governance arrangements (continued)

Statement on internal control

The statement for 2008-09 provides details of the internal control environment and risk management and control framework. Management highlights that the system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The statement identifies that a number of processes have been established to allow the accountable officer to review the effectiveness of the systems of internal control. These include corporate risk arrangements, internal audit and regular review of the risk register. A risk management committee has also been created, with the responsibility of overseeing risk management arrangements.

Risk management is fully incorporated into corporate planning and decision making. Risks are identified at both departmental and project level, which helps to identify global factors that might affect the business. All managers are required to report on how they are managing risk in their area of responsibility.

Internal audit

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the following areas of work:

- payroll;
- accounts receivable;
- accounts payable;
- cash and bank;
- financial reporting; and
- EventScotland.

Internal audit did not make any 'very high' recommendations during the year and concluded that "*On the basis of work undertaken in the year ended 31 March 2009 we consider that* [VisitScotland] *generally has an adequate framework of control over the systems we examined as summarised on pages 2 and 3 (subject to implementation of the recommendations).*"

Internal controls

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses over fixed assets, credit control and creditor payments, controls are designed appropriately and operating effectively.

> The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with the Scottish Government's guidance.

Corporate governance arrangements (continued)

Equality and diversity

As a public body, VisitScotland is legally required to be proactive in pursuit of equality in relation to race, disability and gender. In May 2009 VisitScotland updated its equal opportunities policy, which is accessible to staff and the public alike on the website. This update was performed by the equality and diversity manager appointed in 2008-09, who is responsible for ensuring that VisitScotland continues to comply with the legal requirements of equality and diversity. Appointment of the equality and diversity manager and subsequent policy update are some of the steps taken by the human resources department to address and improve arrangements in this area.

Prevention and detection of fraud and irregularity

VisitScotland's fraud response plan encourages staff to bring suspected frauds to notice and to ensure that prompt and effective action is taken. Where management are made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation. Attendance at the fraud response group depends on the nature of the alleged fraud, but will usually include senior management from finance and human resources. Any significant frauds are reported to the audit committee basis and summarised in an annual fraud report, the latest of which was presented to the audit committee on 18 June 2009. There were no material instances of fraud reported during 2008-09, although three possible cases of fraud or theft were identified and investigated under the fraud response plan.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

Management has established procedures to consider individual reports. Internal audit monitors all Audit Scotland reports on an ongoing basis and ensures that management, as necessary, are aware of recommendations which may impact VisitScotland. This involves performing a self assessment and developing a local action plan for the areas requiring attention. Following internal audit's reporting, management are responsible for ensuring that appropriate action is undertaken in relation to the recommendations. The applicable recommendations will be independently assessed as part of the ongoing internal audit process.

We submitted short returns to Audit Scotland in February and July 2009 on VisitScotland's responses and have summarised these below.

Report topic (issue date)	**Discussed by a committee**	**Noted by a committee**	**Self-assessment performed**	**Local action plan prepared**	**Plans to feed back to a committee**	**Frequency of feedback**
Review of major capital projects in Scotland (June 2008)	✓	✗	✗	✗	1	1
Improving energy efficiency (December 2008)	✗	✗	✗	✗	1	1
Central government's use of consultancy services (January 2009)	✓	✗	✗	✓	1	1

1. Feedback is only provided to a committee by exceptions

Management's view is that the current arrangements are appropriate and does not plan to formally presents all reports to a committee or to prepare local action plans on a regular basis.

Performance

A range of key performance indicators have been developed and discussion of progress against objectives is a standing item on the board agenda. Performance targets are aligned to the strategic objectives and include financial, visitor satisfaction, and conversion rate (enquiries to visitors) targets.

VisitScotland set 11 key performance indicators in 2008-09. Six targets were exceeded and the current economic climate was a significant contributory factor in underachievement of the remaining five targets.

Information including management board minutes is available through the VisitScotland external website to report performance and key issues to the public, but inclusion of board papers would comply with good practice.

Recommendations

The action plan contains two recommendations for development in performance management arrangements.

Area for development	Action plan reference
Performance targets should be subject to regular review and updating to ensure they remain realistic and appropriate.	Four
Board papers should be provided alongside board minutes on the website.	Five

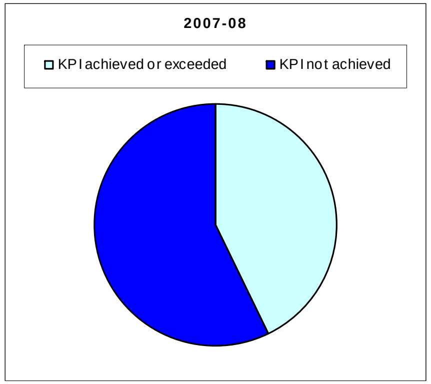
Performance management

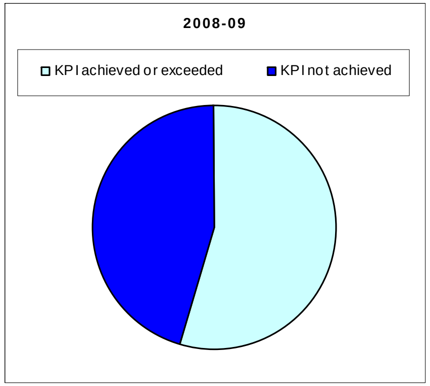
A range of key performance indicators have been developed and discussion of progress against objectives is a standing item on the board agenda. Performance targets are aligned to strategic objectives and include financial, visitor satisfaction, and conversion rate (enquiries to visitors) targets.

Performance against targets in 2008-09

The corporate plan for 2008-11, approved by the executive board in March 2008, outlined eleven key performance measures against which the plan would be monitored. The table below shows the actual performance for 2008-09 (as disclosed in the financial statements) compared to 2007-08.

Year	Number of KPIs	Number of KPI achieved	% of KPIs achieved
2007-08	7	3	43%
2008-09	11	6	55%





VisitScotland secured £7.5 million from business customers (target: £8.4 million) and failure to meet this target was considered by management to be due to the challenging economic conditions experienced by the industry during this period. Funding pressures were also cited as being the main factor for local authority funding being £0.2 million below target.

Management notes that, for some targets, actual was significantly different to the target (either above or below). In one example, this was due to a change in the base data during the year that increased the population and therefore decreased the percentage achieved through no deterioration in actual performance. In another example, additional income generated by relationship marketing UK campaign, a figure of £48.0 million was achieved (against a target of £14.0 million).

While we recognise that challenges arising during the year can result in significant variances, there is a risk that performance targets are not updated to ensure that they remain realistic and based on robust and up to date information. In future management should ensure that targets are based on robust data and that targets are both measurable and manageable on a continuous basis throughout the year.

Recommendation four

In 2007-08 we reported weaknesses in performance reporting to board, including a lack of detail in the reasons for achievement or non-achievement of targets. While we acknowledge that management has taken steps to more fully document analysis and consideration of performance against targets, reports could still be enhanced by including more detail on specific future actions to be taken.

Performance management (continued)

Public performance reporting

VisitScotland published its corporate plan for 2009-12 on its external website for public access. Members of the public are also able to obtain copies of the annual report and financial statements from the website. VisitScotland board meeting minutes are also available on the internet, but the majority of these refer to papers which were discussed during the meeting and these papers are not accessible by the public. We recommend that, in line with good practice across the sector, board papers are also made available to allow members of the public to obtain a better understanding of the issues discussed at board meetings.

Recommendation five

Best Value

In 2007-08 management updated the self-assessment questionnaire issued by the Scottish Government for use by public sector organisations. The self-assessment questionnaire showed that VisitScotland is now ‘well developed’ in eight of the nine areas and ‘under development’ in the remaining one (equal opportunities). In order to continue embedding Best Value in the organisation, work has been carried out on this remaining area of Best Value. This has included the appointment of a equality and diversity manager who has taken forward the equal opportunities agenda and ensured that appropriate arrangements are in place for staff. VisitScotland has made progress is implementing appropriate arrangements, including the appointment of an equality and diversity manager, who is responsible for ensuring that VisitScotland continues to comply with the legal requirements of equality and diversity. This manager also updated the equal opportunities policy, which is accessible to staff and the public alike on the organisation’s website.

Appendix one – action plan

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of VisitScotland or systems under consideration. The weakness may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	Four local authorities had, at August 2009, not yet paid outstanding balances of £130,000 in relation to the 2008-09 financial year. In addition, there was a number of service level agreements with local authorities that were not agreed in a timely manner during the year which increases the risk that VisitScotland does not receive budgeted income. Management should review the current process for agreeing payments and specific timescales for the receipt of agreed funding on an annual basis. *(Grade two)*	Good progress is being made with agreeing service level agreements in a timely manner incorporating payment dates. The process will be reviewed again to ensure payments are received as planned in 2009-10.	Head of finance Head of business development 31 December 2009
2	A number of properties were not included in the interim valuation process at 31 March 2009. While the potential movement would not be material, it is important that management ensure appropriate arrangements for future valuations are made in a timely manner and require VisitScotland's external valuer to value all properties owned at 31 March 2011. *(Grade three)*	Appropriate arrangements will be put in place to comply with the requirements going forward, and, in particular, to value all properties at 31 March 2011.	Head of facilities and procurement 31 March 2011
3	VisitScotland's expenses policy does not set limits or provide guidelines on acceptable amounts for routine items such as hotel and subsistence costs. The policy states that 'reasonable' costs of meals etc. will be reimbursed. Use of 'reasonable' creates a risk that different interpretations of 'reasonable' may impact on an outsider's perspective of expenses reimbursed. We suggest that these matters are considered in a future review of the policy. *(Grade two)*	The policy is due to be reviewed this year and consideration will be given to setting guidelines on what is reasonable.	Audit and compliance manager 31 December 2009

Appendix one – action plan

No.	Issue and recommendation	Management response	Officer and due date
4	For some targets, actual performance was significantly different to the target (either above or below). While we recognise that challenges arising during the year can result in significant variances, there is a risk that performance targets are not updated to ensure that they remain realistic and based on robust and up to date information. In future management should ensure that targets are based on robust data and that targets are both measurable and manageable on a continuous basis throughout the year. *(Grade two)*	Robust key performance indicators have been set for the current year which should meet this recommendation.	Director of strategic partnerships 31 March 2010
5	VisitScotland board meeting minutes are available on the internet, but the majority of these refer to papers which were discussed during the meeting and these papers are not accessible by the public. We recommend that, in line with good practice across the sector, board papers are also made available to allow members of the public to obtain a better understanding of the issues discussed at board meetings. *(Grade three)*	The recommendation will be put to the board and management for discussion and action as appropriate.	Audit and compliance manager 30 November 2009