



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

VisitScotland

Annual audit report to VisitScotland
and the Auditor General for Scotland

Audit: Year ended 31 March 2010

1 October 2010

AUDIT

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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 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.

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VisitScotland's main activities continue to focus around marketing Scotland as a tourist destination both at home and overseas, with significant research undertaken designed to understand customers' needs and then translate these needs into focused marketing campaigns. In 2009-10, campaigns included the *Winter White* and *Autumn Moments* promotions. However, in common with other public sector organisations, VisitScotland faces potential funding pressures over the next few years, which is having an impact on future planning. Management issued a draft strategy for the next four years to the Scottish Government, which highlighted how management could deliver services in a climate of increased financial pressures. Management will liaise with the Scottish Government in the coming months around the viability of these plans and further consideration that will be required going forward.

Future financial projections are based on a number of underlying assumptions which may be subject to change as a result of the potential cut backs in funding following the change of government in the United Kingdom. Management considered future funding pressures before drafting the 2010-13 business plan and scenario planning has been performed in anticipation of un-quantified cuts in public sector funding.

On a group basis, VisitScotland met its financial targets for 2009-10, recording a small underspend of £0.2 million. The 2010-11 financial plan forecasts that VisitScotland will achieve a balanced budget, with an anticipated spend of £62.8 million on promoting tourism in Scotland. eTourism Limited recorded a net profit of £0.6 million in the year to 31 March 2010, representing a significant improvement on previous years.

VisitScotland achieved efficiency savings of £1.1 million, primarily through procurement and shared services savings, in addition to recurring savings of £1.8 million from schemes initiated in 2008-09. VisitScotland will continue to be subject to achieving recurring efficiency savings in future years.

Management has undertaken a Best Value self-assessment using 16 toolkits issued by Audit Scotland in 2009-10 with a range of findings which will be used as a basis for enhancements in a number of service areas in coming years.

Measuring VisitScotland's impact on the Scottish economy will be central to performance management in the coming years. In 2010-11, management has targeted that £125 million of additional income will be generated by themed campaigns and that spend by visitors, as a direct result of local marketing activity, will be £30 million. Management has grouped key performance indicators around the five corporate objectives of maximising the economic value of the brand, inspiring through information provision, promoting quality, managing effectively and generating income.

In relation to people management, equalities have also been subject to significant management consideration during 2009-10, particularly since this was considered to be 'under development' as part of a Best Value review in 2008. VisitScotland appointed an equalities and diversity manager in 2008 to take forward the equalities agenda. One of the key developments as a result of this has been the development of VisitScotland's single equality scheme, which was published during 2009-10.

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 fourth 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 earlier in the year.

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 2010 and financial plans for 2010-11 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). Best Value reviews were optional for central government bodies. Positively, during the year management carried out high level self-assessments against all available toolkits.

International financial reporting standards

The 2007 Budget 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 ("FRoM"). The financial statements for the year ended 31 March 2010, including comparative figures for 2008-09, were prepared on the basis of IFRS in line with the FRoM.

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.

Acknowledgement

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

Service strategy and business planning

Given the nature of the organisation, customer focus is central to the purposes of VisitScotland, both from a visitor and a business engagement perspective. The 2010-13 corporate plan groups VisitScotland's key customers into four categories: visitors, businesses, strategic partners and internal customers (staff). There are strategies in place for engaging with each of these groups. From a business perspective, VisitScotland's main activity is marketing, with significant research undertaken which is designed to understand customers' needs and then translate these needs into focused marketing campaigns, such as the *Winter White* and *Autumn Moments* promotions.

Future plans are subject to a number of external factors; most notably the funding receivable from the Scottish Government. As a result, the management team has considered various options for reducing costs over the coming years, with draft proposals submitted to the Scottish Government. While it is not entirely unreasonable in the current climate, scenarios focus primarily on reducing costs rather than a combination of cost reduction and income maximisation.

As part of future planning, management recognises the need to engage more closely with partners, both in the public and private sector, to look for opportunities that will help to grow Scotland's tourism industry. With resources expected to decline in the public sector in the coming years, effective partnership working arrangements will need to be strengthened. VisitScotland continues to be involved in the business planning and alignment group and strategic forum, which includes key partners such as Scottish Enterprise and Historic Scotland. In addition, VisitScotland is also considering a review of the single outcome agreements with community planning partnerships which, under the leadership of local authorities, will offer an opportunity for VisitScotland to help deliver local services to achieve benefits at a local level.

Measuring VisitScotland's impact on the Scottish economy will be central to performance management in the coming years. For example in 2010-11, management has targeted that £125 million of additional income will be generated by the themed campaigns and that spend made by visitors as a direct result of local marketing activity will be £30 million. Management now groups key performance indicators around the five corporate objectives of maximising the economic value of the brand, inspiring through information provision, promoting quality, managing effectively and generating income. Management should continue to ensure that performance targets for 2010-11 can be accurately measured through available information systems. Performance results for 2009-10 highlighted that the majority of targets were achieved, with exceptions relating to web traffic on conventionscotland.com and spend per head at visitor information centres.

VisitScotland published its business plan for 2010-13 on its external website for public access. This provides a clear forum for performance reporting and future plans. Members of the public are also able to obtain copies of the annual review and report from the website. Board meeting minutes are available from the website, but papers which were discussed during the meeting are not currently accessible to the public. This matter was discussed at a board meeting in January 2010 and we understand that board papers will be available on the website in the near future.

Sustainability

The 2010-13 business plan states that VisitScotland “aim(s) to be recognised as a leader in sustainable tourism development ... at a European and world level”. In order to achieve this, a sustainable tourism strategy has been developed to address sustainability in internal operations, engagement with visitors, engagement with tourism businesses and partnership working.

With European Regional Development Fund support, VisitScotland is developing a programme of sustainable business events and related activity that promotes business growth through the encouragement of sustainable business and practices. The programme aims to increase understanding of sustainable tourism and encourage business development in a sustainable manner. Several key objectives for the sustainable tourism programme have been identified, including designing and delivering a range of events which targets 1,000 tourism businesses, increasing business knowledge of sustainable tourism by 60% and delivering events which result in 15% of participants implementing environmental audits.

Procurement and risk management

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. Papers issued by the Scottish Government in relation to procurement are subject to relevant management and board consideration. For example, changes to procurement rules during the year, which included revised legal remedies for suppliers when organisations are in breach of rules, were considered at board level.

The central government centre of procurement excellence completed an audit of VisitScotland’s procurement function earlier in 2009-10. This highlighted several areas of good practice, such as governance arrangements around procuring of products or services. However, it also identified scope for improvement in benchmarking and supplier management.

It is crucial that risk management arrangements remain an area of priority to management, particularly given the impact a decrease in funding may have on VisitScotland. Management ensures that the corporate risk register is regularly updated for audit committee review. In addition to VisitScotland’s routine risk management processes, separate risk registers exist for significant projects, for example *Homecoming* and the acquisition and continued management of eTourism Limited. Preparation of annual departmental operating plans includes a review of existing risks and discussion of any potential new risks. The audit and compliance manager is the designated risk manager. Along with other key personnel, the risk manager sits on the risk management committee, which meets four times a year and reports in to the audit committee.

People management and equalities

The human resources directorate has shown commitment to people management over the past year through completion of a full resourcing strategy and ‘talent’ inventory. Communication events have also occurred to link people to the strategy of the organisation. Performance 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. Clear performance targets for individuals contribute to a culture of challenge and improvement. An employee survey is conducted every two years, with the last survey being completed in September 2009. This showed that overall satisfaction amongst VisitScotland staff was high and was a marked improvement on the figures from the previous survey in 2007.

Equalities have also been subject to management consideration, particularly since this was considered to be 'under development' during a Best Value review in 2008. An equalities and diversity manager was employed in 2008 to take forward the equalities agenda. As a result, one of the key developments has been the implementation of a single equality scheme. This scheme is designed to ensure that there is a clear diversity strategy for the next three years and to provide a platform for new legislation arising in the Equality Bill, which is due to come into law in October 2010. The single equality scheme encompasses all seven strands outlined in this Bill, and actions are designed to meet equality outcomes focused on achieving change for both VisitScotland staff and customers. The scheme has been subject to consultation both internally and with external stakeholders.

Governance and accountability

The board delegates powers to executive management and three sub-committees: audit, remuneration and EventScotland, each committee having formal terms of reference. The terms of reference meet expectations and detail committee membership, procedures for meetings, reporting, responsibilities, and information requirements. There have been several recent changes of membership at board level, including the appointment of a new chairman from 1 April 2010. In addition, there have been changes at director level, with the chief executive stepping down from his post since the year end. The director of visitor engagement is currently serving as the acting chief executive.

Best Value toolkits

Management proactively considered 16 toolkits issued by Audit Scotland to obtain a broad understanding of how the organisation was performing in relation to Best Value, tailoring the focus of the toolkits to fit the organisation's circumstances. A small number of directors and senior managers took part in the exercise and, in most instances, each individual toolkit was reviewed by one senior manager.

Management scored areas as being either 'basic': minimum acceptable standards which would be sufficient to allow an organisation to demonstrate sound performance, 'better': some elements of good or even best practice, but not on a consistent basis, or 'advanced': consistently demonstrating good or best practice and contributing to innovation. Management's conclusions were that VisitScotland was displaying 'basic' practice for six areas, 'better' practice for nine and 'advanced' practice for one. The latter categories covered efficiency; procurement; financial management; planning; risk management; challenge and improvement; equalities; performance management; public performance reporting and customer focus.

We agree with management's comments that to secure 'advanced' practice in all areas, extra resources would need to be identified. As a result, it is unlikely that it would be efficient for VisitScotland to show 'advanced' for each toolkit. We understand that plans are being developed to 'roll out' Best Value self assessment across the organisation to enhance arrangements, where appropriate.

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

We have assessed all key risk areas as documented in our audit plan overview and did not identify any significant issues that would impact our audit opinion. We did not identify any further key risk areas during our audit of the financial statements.

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

- Employee benefits – in addition to its participation in the local government pension scheme, VisitScotland also participates in the British Tourist Board Pension Scheme. In 2008-09 this scheme was accounted for as a defined contribution scheme as VisitScotland had been unable to identify its share of the underlying assets and liabilities. From 1 April 2009, the actuaries have provided an appropriate split of assets and liabilities, which has impacted the accounting treatment. Changes in actuarial assumptions as a result of the audit process increased net liability by £6 million. Total net retirement benefit obligations at 31 March 2010 are £28 million (2008-09: £4.1 million).
- Intangible assets – as part of the transition to IFRS, management considered the accounting treatment of the acquisition of e-Tourism. IFRS 3 requires the identifiable assets and liabilities, including intangible assets, in any acquisition to be brought onto the group balance sheet at fair value. The impact has been to increase software licenses by £0.9 million.

Reporting arrangements and timetable

The draft annual report and financial statements were received on 12 July 2010. The group and VisitScotland financial statements were complete – reflecting an improvement on previous years – and amendments related primarily to the transition to IFRS. The audit was completed in a timely manner and the board considered and approved the financial statements at the board meeting as planned. Achieving these timescales was helped by moving the dates of the audit forward.

Audit opinion

Following board approval we issued an audit report expressing unqualified opinions on the financial statements for the year ended 31 March 2010 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 narrated potential key risk areas. We have concluded our work in each area and summarise the results below.

Application of International Financial Reporting Standards

The Scottish Government announced on 25 April 2008 that all Scottish Government departments, executive agencies, non-departmental public bodies and health boards would report under IFRS from 2009-10, necessitating the restatement of comparative information under new accounting policies. As part of the implementation process, management prepared shadow financial statements (converting the comparative information for 2008-09 from UK GAAP). We reported to management our findings based on this work, which noted that further consideration needed to be given to several areas including accounting for aspects of the eTourism Limited acquisition and finance leases.

The transition to reporting under IFRS has resulted in key changes, with management required to make several judgements including:

- classification and valuation of property, plant and equipment;
- assessing whether existing operating leases met the criteria of a finance lease under IFRS;
- treatment of intergroup balances arising on acquisition of eTourism and determining the value of intangible assets acquired in the transaction;
- establishing the extent of segmental reporting; and
- ensuring accounting policies were updated to reflect the requirements of the FReM.

eTourism Limited

eTourism has reported a profit of £0.6 million for the year to 31 March 2010, in-line with the level anticipated in the company's management accounts throughout the year. This represents a significant improvement on the loss of £0.5 million that was projected by eTourism when VisitScotland assumed 100% ownership of the company in December 2008. The main factor is savings in staff costs of approximately £0.7 million and loan interest of around £0.4 million.

In our interim report we noted that management had not recharged time that VisitScotland staff spend carrying out work in relation to eTourism, such as finance, sales and management roles. Although management considered this to be a business decision, we noted this may have a material affect on the level of profit in eTourism. A recharge has subsequently been calculated by management and included in the eTourism financial statements.

VisitScotland's internal auditors completed a review of the financial controls at eTourism during 2009-10 and noted some control deficiencies. A report detailing follow-up actions was presented to the audit committee in August 2010.

Retirement benefit obligations

In previous years VisitScotland has accounted for its participation in the British Tourist Board Pension Scheme, a multi-employer defined benefit scheme, on a defined contribution basis on the grounds that the assets and liabilities have not been separately identifiable for each participating employer. For 2009-10 the actuarial administrators of the scheme have, however, been able to provide an appropriate split of assets and liabilities. Discussions between the scheme actuaries and our actuarial specialists confirmed that the approach taken to the allocation of assets and liabilities was reasonable, supporting management's conclusions that VisitScotland requires to comply with the requirements of IAS 19 *Employee benefits* from 1 April 2009 and account for participation in the scheme on a defined benefit basis, recognising its share of the assets and liabilities on its balance sheet at 31 March 2010.

Management considered the assumptions proposed by both independent actuaries and selected a combination of scheme specific and consistent assumptions that reflect the underlying data and scheme constitutions.

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, in particular in relation to European Union funded expenditure. We also tested a sample of EventScotland 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.

Relevant circulars and guidance from the Scottish Government and other regulatory bodies are sent to the audit and compliance manager. These will then be forwarded to the relevant department for action. The audit and compliance manager maintains a log of the responsible officer for each circular together with the required action, associated timescale and confirmation that appropriate action was taken.

On a group basis, VisitScotland met its financial targets for 2009-10, recording a surplus of £0.2 million (2008-09: £0.1 million) against a total allocation cash and non-cash allocation of £50.8 million. eTourism Limited reported a net profit to 31 March 2010 of £0.6 million.

Total expenditure decreased year on year by £1.4 million, largely reflecting a significant decrease in commercial marketing activities of £1.3 million.

VisitScotland prepared a balanced budget for the year ending 31 March 2011, with the 2010-13 business plan forecasting funding and commercial income of £62.8 million.

VisitScotland achieved cumulative efficiency savings of £2.9 million for 2009-10 against a cumulative target of £1.1 million.

Management submitted a proposed financial plan to the Scottish Government for the next four year period. Responses to the proposed plans are expected over the next few months.

VisitScotland's grant-in-aid funding was slightly lower than initially anticipated in the 2009-12 corporate plan. The total funding received represented core grant funding of £38.1 million, additional revenue grants of £4.7 million, EventScotland funding of £5 million and capital grant-in-aid of £1.3 million. Commercial and stakeholder income was also lower than forecast in initial financial plans. A major factor in this related to the continued decrease in local authority funding (down £1.3 million from the 2008-09 financial year). There continues to be challenges for VisitScotland in relation to retail and advertising income, but the 2009-10 results showed that the performance in these areas was generally strong in comparison to prior years.

Total expenditure was down by £1.4 million in 2009-10 to £67.4 million compared to £68.8 million in 2008-09. This was largely due to a significant decrease in commercial marketing activities of £1.3 million. Total expenditure was also significantly lower than the corporate plan. Management will need to continually assess expenditure and ways in which it can be managed as funding potentially reduces over the coming years.

VisitScotland was allocated £1.7 million in relation to non-cash items in 2009-10. We understand that there has been some discussions between management and the Scottish Government over levels of non-cash allocations going forward and whether these will form part of the revenue grant which has already been agreed in draft for 2010-11.

The small surplus in the financial statements largely relates to the credit that was taken to the operating cost statement in 2009-10 in relation to the cost of capital charge. This balance largely arose as a result of the liability that VisitScotland held on the balance sheet at 31 March 2010, relating to retirement benefit liabilities. The outturn is reported at a group level, with management highlighting that the surplus of £0.6 million relating to eTourism Limited was used to fund VisitScotland marketing activities.

The analysis below shows that VisitScotland met its financial targets, with an underspend after adjustments of £0.2 million.

As part of reporting under IFRS, management is required to disclose the financial performance of different reporting segments in the financial statements under IFRS 8 *operating segments*. Management identified two primary reporting segments – VisitScotland and EventScotland. The former includes the activities of eTourism Limited, which are managed as an integral part of VisitScotland's activities.

Given the nature of the organisation, the majority of the net operating costs relates to VisitScotland, whose primary focus is the promotion of tourism in Scotland. EventScotland operating costs of £10.5 million relate primarily to grants provided for events of £7.4 million (an increase of around £1 million from 2008-09).

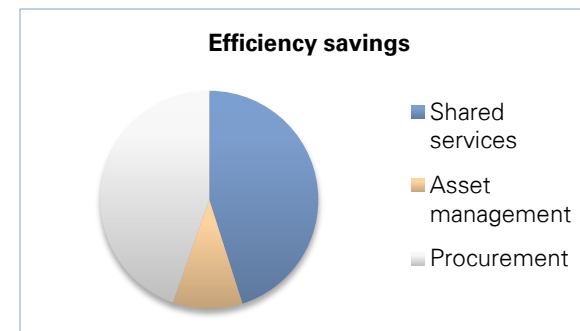
EventScotland accounts for 16% (£10.5 million) of gross group expenditure, which is higher than the £9.8 million (14%) in 2008-09. The proportion of expenditure categorised as marketing activities (78.1%), partnership engagement (10.4%) and support services (11.5%) on the face of the operating cost statement remains consistent with the previous year.

£'million	2009-12 corporate plan	2009-10 financial statements	Variance
Grant-in-aid funding	48.9	47.8	(1.1)
Commercial and stakeholder income	20.4	18.2	(2.2)
Total income	69.3	66.0	(3.3)
Total Expenditure	(69.3)	(67.4)	1.9
Net surplus/(deficit) at 31 March 2010	-	(1.4)	(1.4)
Funding allocated in relation to non-cash items	-	1.7	1.7
Other adjustments relating to financing costs	-	(0.3)	(0.3)
Credit relating to notional cost of capital	-	0.3	0.3
Audit adjustment relating to cost of capital	-	(0.1)	(0.1)
Net surplus/(deficit) after adjustments	-	0.2	0.2

Efficient government programme

The Scottish Government issued the *efficient government programme for 2008-09 – 2010-11*, which provides details on the background to efficiencies, its application in various sectors, the types of savings and the method of reporting efficiencies. Last year VisitScotland reported efficiency savings of £1.8 million. In addition to these recurring savings, in 2009-10, VisitScotland achieved a further £1.1 million of savings in the areas outlined below, the savings being measured on the basis of criteria established by the Scottish Government. Cumulative savings to 31 March 2010 were therefore £2.9 million, against a cumulative target of £1.1 million.

Activity	2009-10 £'million
Shared services	0.5
Asset management	0.1
Procurement	0.5
Total	1.1



Savings from shared services relate to the convergence of eTourism and the streamlining of functions that followed as a result. The acquisition led to back-office services being consolidated and also removed the need for third party stakeholders to be paid. Asset management savings have been achieved in relation to developments in information technology infrastructure, notably for example, the server being brought in-house in 2009-10. Procurement savings have been achieved through a combination of the marketing services contract established by the Scottish Government and media advertising savings, although the figure for media advertising savings was still to be confirmed as applicable by the Scottish Government at the time of writing this report.

Management intends to deliver further savings in 2010-11 through the efficiencies savings secured in the three key areas noted above – shared services, asset management and procurement.

Financial management (continued)

Financial planning

The 2010-13 business plan estimates a break-even position in 2010-11; income and expenditure is summarised in the opposite table.

Management highlighted that various scenarios were considered during the planning process before the budget was included in the 2010-11 business plan. This included an expectation that there would be a significant decrease in grant-in-aid funding (down £5.3 million in 2009-10 business plan).

In addition, management prepared a 2011-12 indicative budget forecast. For 2011-12, a balanced budget is forecast, with expenditure expected to total around £62.8 million. Management confirmed that this forecast is subject to change when further detail is confirmed on grant settlement.

There is some risk attached to achievement of future financial plans, as they are dependent on several significant factors. The table below summarises some of the key risks identified by management. These risks are reflected in the corporate risk register.

Key risks identified by management

- The budget for 2011-12 is provisional and dependent on the outcome of the Scottish Government's spending review. Future financial projections are based on a number of underlying assumptions which may be subject to change as a result of potential cut backs in funding allocations following the change of government in the United Kingdom.
- Reduction in funding from local authorities, due to budget restrictions. This may have an impact on regional and visitor information centre operations.
- Economic slowdown arising from worldwide credit squeeze leads to higher drop in visitor numbers and spend than anticipated.

Income	2010-11 business plan £'million	2009-10 business plan £'million
Commercial and stakeholder	19.2	20.4
Scottish Government funding	43.6	48.9
Total income	62.8	69.3
Expenditure		
Business engagement	7.2	7.4
Corporate services	6.2	7.0
Strategic partnerships	3.6	4.1
Visitor engagement	34.1	39.9
Digital and media	4.0	0
EventScotland	6.7	7.0
Homecoming	0	2.0
Capital	1.0	1.3
Total expenditure	62.8	69.3
Net income/expenditure	0.0	0.0

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 there is an adequate framework of control over the systems audited.

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 has procedures to consider Audit Scotland national reports.

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 reviews 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 executive 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. During 2009-10 there were 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.

Internal audit

Internal audit completed their plan for the year. We drew on the findings from the completed reports, including:

- property management; and
- VisitScotland.com financial controls.

Internal audit issued their annual report in June 2010. There were no recommendations during the course of their work that were classified as 'very high' and the overall conclusions noted that "*On the basis of work undertaken in the year ended 31 March 2010 we consider that [VisitScotland] generally has an adequate framework of control over the systems we examined*".

Internal controls

Since our appointment as VisitScotland's external auditors in 2006 we have reported some areas where controls could improve. Management has been responsive to recommendations we have made. For example, in this year's interim management report we highlighted the need to consider further recharge costs in relation to eTourism Limited. As part of our year-end fieldwork we have reviewed the process management have carried to identify and account for recharges and this appears appropriate.

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 weaknesses noted in the interim management report, 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.

Prevention and detection of fraud and irregularity

A fraud and irregularities response plan sets out what to do if fraud or any other irregularity is suspected. The plan forms part of VisitScotland's procedures for handling suspicions, allegations or evidence of fraud or other irregularities.

There is a formal whistle-blowing policy governing the procedures to be followed in the event of a fraud or suspected fraud. Where management is 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, human resources and internal audit.

Significant frauds are reported to the audit committee on a quarterly basis.

There were no material instances of fraud reported during 2009-10. Three investigations were completed, all relating to suspected frauds totalling less than £5,000.

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 board level, as appropriate.

Management has established procedures to consider individual reports. The audit and compliance manager monitors all Audit Scotland reports on an ongoing basis and ensures that senior management, as necessary, are aware of recommendations which may impact VisitScotland. Management is responsible for ensuring that appropriate action is undertaken in relation to the recommendations

In 2009-10 we have reported action taken by management in response to a number of reports, which are summarised 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
Improving public sector purchasing (July 2009)	✓	✗	✓	1	2	2
Improving civil contingencies planning (August 2009)	✓	✗	✓	1	2	2
Scotland's public finances: preparing for the future (November 2009)	✓	✗	✓	1	2	2
Protecting and improving Scotland's environment (January 2010)	✓	✗	✗	1	2	2
Improving public sector efficiency (February 2010)	✓	✗	✗	1	2	2

1. A local action plan is only prepared when management feel that the findings of the report are of particular relevance to VisitScotland.
2. Feedback is only provided to a committee on an exceptions basis