

# VisitScotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for VisitScotland

February 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at Audit and Risk Committee meetings and a review of supporting information we have identified the following main audit risk areas for VisitScotland. These are audit risks which require a specific audit response rather than business risks for VisitScotland. We have categorised these risks into financial risks and wider dimension risks as detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that auditors consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Detailed testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA240 requires auditors to presume a risk of fraud where income streams are significant. VisitScotland receives in excess of 10% of its income from</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit's review of key financial systems.</p>	<p>Walk-through of controls over receivables and payables.</p> <p>Reliance on internal audit's review of key financial systems.</p> <p>Review of VisitScotland's arrangements to prevent and</p>

Audit Risk	Source of assurance	Planned audit work
<p>sources other than Scottish Government funding, including retail and commercial income. The extent and nature of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p> <p>The Financial Reporting Council's Practice Note 10 (revised) expands the ISA 240 assumption in the public sector to cover expenditure. The extent and nature of expenditure means that there is an inherent risk of fraud.</p>		<p>detect fraud.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p> <p>Detailed cut-off testing of income and expenditure streams.</p>
<p><b>3 Estimations and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and non-current assets due to the extent of assumptions actuaries and valuers use in their calculations. This represents an increased risk of material misstatement in the financial statements.</p> <p>Additionally, as outlined in risk 5 below, significant pension liabilities could become payable in the future and this creates a risk that appropriate disclosures are not made in the financial statements this year.</p>	<p>Valuations provided by qualified valuers/ actuaries.</p> <p>Controls are in place over provision of accurate data to actuaries.</p>	<p>Completion of 'review of the work of an expert' for the actuaries and professional valuers</p> <p>Review of accounting estimates, pension and non-current asset disclosures and any contingent liabilities.</p> <p>Focused testing of non-current assets and pension disclosures, including data that VisitScotland provides to pension administrators and the actuary.</p>
<p><b>4 Business Transformation</b></p> <p>On 12 October 2017, VisitScotland announced the implementation of its visitor information strategy, representing a major development of a key element of VisitScotland's business. The implementation plan is phased over two years and covers a planned reduction in the staffed estate from 66 to 26 visitor centres, with a reduction of 20 expected by the end of March 2018. This is likely to have an impact on the carrying value of non-current assets and accounting for staff reductions. There is a risk that amounts and disclosures are not properly reflected in the financial statements.</p>		<p>Focused testing of relevant account areas such as any provisions, severance costs, capital transactions, leases, revaluations and reserves balances.</p>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>5 Pensions liabilities</b></p> <p>VisitScotland participates in twelve Local Government Pension Schemes, the majority of which have reducing membership. There is a risk that significant liabilities could become payable when there are no longer any active members paying into the schemes.</p> <p>In addition, there is continued uncertainty around the valuation of the British Tourism Board pension scheme, creating a risk that annual employer contributions may increase and therefore result in increased financial pressures for VisitScotland.</p>	<p>The Scottish Government has provided VisitScotland with signed guarantees for any Local Government Pension Schemes' liabilities and with letter of support for the British Tourism Board pension scheme. VisitScotland is taking further steps to seek a satisfactory resolution of on-going pension liability uncertainties and to minimise the impact of any significant future financial pressures which may occur.</p>	<p>Monitor and assess progress against on-going resolution of pension scheme issues.</p>
<p><b>6 Financial sustainability</b></p> <p>In our 2016/17 annual audit report, we recommended that VisitScotland creates a medium to long-term financial strategy to support the organisation's corporate plan. Management started the process by presenting various scenarios to the Board but in the meantime there remains a risk that VisitScotland does not have a complete picture of its longer term financial position and the challenges it faces in meeting its objectives in the medium to long term.</p>		<p>Review of robustness of any medium to long-term financial strategy and plans.</p> <p>Review and assessment of scenario planning.</p> <p>Review Board papers and minutes to assess Board level consideration and oversight of long-term financial planning.</p>
<p><b>7 Workforce planning</b></p> <p>Following from our 2016/17 annual audit report recommendation, VisitScotland is developing an integrated organisation-wide workforce plan. Until this is developed, the risk remains that VisitScotland may be unable to deliver its corporate strategy due to skills and capacity gaps in key areas.</p>	<p>Internal audit's review of workforce management.</p>	<p>Review and assessment of VisitScotland's progress in creating a workforce plan.</p> <p>Consideration of internal audit's review of workforce management.</p>
<p><b>8 Openness and transparency</b></p> <p>In our 2016/17 annual audit report we recommended that VisitScotland considers the scope to enhance transparency,</p>		<p>Consider VisitScotland's review of its publication policy.</p> <p>Review disclosures in the 2017/18 financial statements.</p>

Audit Risk	Source of assurance	Planned audit work
<p>for example by reviewing the availability of Board papers and committee papers and minutes. The Board agreed to publish additional information under the publication policy but considers that Board papers and committee papers and minutes should not be made publicly available. With increasing public expectations for more openness in the conduct of public business, there remains scope for VisitScotland to enhance transparency of its business.</p>		
<p><b>9 Implementation of Enterprise Resource Planning System (ERPS)</b></p> <p>VisitScotland is procuring an integrated finance, procurement and HR system. Managed effectively, information and communication technology (ICT) projects can deliver benefits and efficiencies. There are significant inherent risks associated with managing such ICT projects. These include risks of not delivering on time and to budget, not realising the intended benefits and adverse impact on the consistency and integrity of financial reporting capability.</p>	<p>The framework with pre-approved suppliers will be utilised for procuring the new system.</p>	<p>Monitor the arrangements VisitScotland puts in place to implement and oversee this project, taking account of internal audit involvement.</p>

## Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to VisitScotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Management Report	April 2018	12 April 2018
Annual Audit Report	September 2018	6 September 2018
Independent Auditor's Report	October 2018	N/A

### Audit fee

**6.** The agreed audit fee for the 2017/18 audit is £69,410. In determining the audit fee we have taken account of the risk exposure of VisitScotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 6 July 2018.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

### Responsibilities

#### Audit & Risk Committee and Accountable Officer

**8.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**9.** The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

#### Appointed auditor

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

**11.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of VisitScotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how VisitScotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**13.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information included in the performance and accountability reports is consistent with the financial statements
- the regularity of the expenditure and income

## Materiality

**14.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**15.** We calculate materiality at different levels as described below. The calculated materiality values for VisitScotland are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest budget for 2017/18.	£530,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£371,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£25,000

16. We review and report on other information published with the financial statements including the performance report, accountability report and the remuneration report. Any issues identified will be reported to the Audit and Risk Committee.

#### Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. There have been significant changes within the finance team, responsible for the production of the annual report and financial statements and further changes are planned. In addition, the timescale for audit is significantly tighter than previous years. In light of these changes there is a risk that this impacts on the timeliness and quality of the financial statements.

18. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance, excluding the performance report	22 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	6 July 2018
Latest submission date of the performance report	TBC July 2018
Latest date for final clearance meeting with Director of Corporate Services	TBC August 2018

Agreement of audited unsigned annual accounts	TBC August 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	30 August 2018
Independent auditor's report signed	20 September 2017

## Internal audit

**19.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. The internal audit function during the 2017/18 financial year was provided by Scott-Moncrieff.

### Adequacy of Internal Audit

**20.** We will formally review the internal audit function to confirm that it complies with the Public Sector Internal Auditing Standards (PSIAS). Subject to completion of this review, based on a review of internal audit plans, we intend to place reliance on IA work as outlined below.

### Areas of Internal Audit reliance

**21.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Review of core financial systems
- Payroll

**22.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Stakeholder engagement
- Events
- Workforce management
- ICT Governance
- Disaster Recovery

## Audit dimensions

**23.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**24.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on VisitScotland's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**25.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We consider:

- whether VisitScotland has arrangements in place to ensure systems of internal control are operating effectively
- whether VisitScotland can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how VisitScotland has assured itself that its financial capacity and skills are appropriate
- whether VisitScotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**26.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We consider:

- whether VisitScotland can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making, finance and performance reports.
- the quality and timeliness of financial and performance reporting.

**27.** As part of the 2017/18 audit we will, in discussion with VisitScotland, attend appropriate Board meetings to observe Board oversight and governance in practice.

### Value for money

**28.** Value for money refers to using resources effectively and continually improving services. We consider if:

- VisitScotland can provide evidence that it is demonstrating value for money in the use of its resources.
- VisitScotland can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- VisitScotland can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

**29.** There were no value for money risks identified by our planning work that we intend to undertake specific work on in 2017/18.

### Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**31.** The engagement lead for VisitScotland is Gordon Smail, Associate Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of VisitScotland.

### Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

### **Adding Value**

**35.** Through our audit work we aim to add value to VisitScotland. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well VisitScotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# VisitScotland

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