

VisitScotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for VisitScotland
February 2022

Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	10
Reporting arrangements, timetable, and audit fee	13
Other matters	16

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of VisitScotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts of VisitScotland and its group and the issue of an independent auditor's report setting out our audit opinions on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements
- review VisitScotland's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

3. We aim to add value to VisitScotland by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help VisitScotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and VisitScotland

4. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and VisitScotland. Key responsibilities are summarised below.

Auditor responsibilities

5. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

6. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within VisitScotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

VisitScotland responsibilities

7. VisitScotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

8. Also, VisitScotland has 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 deliver their objectives.

Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to the Covid-19 pandemic. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

10. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. The materiality values for VisitScotland are set out in [Exhibit 1](#). Due to the small impact of the group consolidation process, we have calculated that the same materiality levels should apply for both.

Exhibit 1

2021/22 Materiality levels for VisitScotland and its group

Materiality	VisitScotland and its group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1 per cent of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£1.3 million
Performance materiality – 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 assessed performance materiality at 60 per cent of planning materiality.	£0.8 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£65,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of VisitScotland, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

13. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. Management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Risk of incorrect accounting for Covid-19 Grants</p> <p>VisitScotland may not have completed all transaction processing of Covid-19 applications by 31 March 2022. They will therefore need to correctly identify and assess only those transactions which meet the criteria of a liability as outlined in Accounting Standards.</p> <p>There is a risk that transactions and balances relating to outstanding Covid-19 grant payments at the year-end are not correctly accounted for in the financial statements or appropriately disclosed in the corresponding notes.</p>	<ul style="list-style-type: none"> • Review the appropriateness of accounting policies to ensure compliance with Accounting Standards and FReM requirements. • Management review and approval of all journal entries. 	<ul style="list-style-type: none"> • Assess the appropriateness of VisitScotland's accounting policies. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focused testing of accounting accruals. • Cut-off testing to confirm income and expenditure is accounted for in the correct financial year.

Source: Audit Scotland

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for VisitScotland because the majority of funding comes from government grants and is easily verified to external sources and therefore there is little risk of fraud in this area. The residual balance of commercial income is unlikely to be material in 2021/22 and we do not consider these to present a significant risk of fraud.

15. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for VisitScotland as our assessment of the expenditure transaction streams has confirmed that many are low risk e.g. staff costs, estate costs and supplies and services and our standard

audit procedures will involve focused testing on accruals in the higher risk area of Covid-19 grants. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector, including consideration of the National Fraud Initiative, and concluded that there is not a high risk of fraud across expenditure streams.

16. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing is directed towards significant and unusual transactions and assessing accounting estimates to address any residual risk, as part of our standard fraud procedures.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where we consider there to be risks to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly. The areas of specific audit focus are:

- **Valuation and measurement of Non-Current Assets:** The fair value of all land and buildings is assessed by obtaining regular valuations of the property portfolio. These are completed by a professional valuer, engaged by VisitScotland. There is a risk of material misstatement due to the high degree of subjectivity and estimation used in the calculation.
- **Measurement and judgements applied to the valuation of pension liabilities:** There is an inherent risk within pension transactions and balances due to the extent of assumptions actuaries use in calculations and the impact they can have on the financial statements. This subjectivity represents an increased risk of misstatement in the financial statements.
- **Arrangements for the preparation and consolidation of Group Accounts:** The range and complexity of transactions for 2023 Cycling World Championships Limited (CWC Ltd) may increase as key milestones in the delivery of the event are met and activity escalates. There is a need to ensure that the consolidation arrangements for the Group remain adequate.

Group Consideration

18. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

19. VisitScotland has a group which comprises the consolidation of the subsidiary CWC Ltd. The financial information of this components is performed by other auditors and we plan to place reliance on this work. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the component on which to base our group audit opinion.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report the changes to those charged with governance.

Audit dimensions and Best Value

Audit dimensions

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3 Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 financial sustainability in the medium (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, decision-making and the transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

23. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within VisitScotland.

Audit dimension risks

24. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Audit dimension risk	Sources of assurance	Planned audit response
<p>1. Financial planning and sustainability</p> <p>The Covid-19 pandemic has had a significant impact on the financial position of VisitScotland. Commercial income has reduced and the costs of delivering services are increasing.</p> <p>The prominent role that VisitScotland plays in the sector, linking many of its activities with the aims and objectives of the STERG Action Plan creates a significant financial challenge, balancing available resources with the successful delivery of required outcomes.</p>	<ul style="list-style-type: none"> • Annual budgets approved by Board prior to commencement of financial year. • Regular progress reports to Board on financial position. • Progress with delivering revised budget. • Robust internal control processes for financial transaction processing, recording and reporting. 	<ul style="list-style-type: none"> • Review the financial monitoring during the year. • Assess the robustness of the 2022/23 budget process. • Consider the appropriateness of longer-term planning, strategies and forecasts.

25. The Audit Planning Guidance, issued by Audit Scotland, required auditors to assess the risk of fraud and corruption in the procurement function of public sector bodies. The audit work was originally planned to be completed in prior year but was postponed due to the Covid-19 pandemic. As part of our 2021/22 audit work we will review and assess the appropriateness of the procurement arrangements in place within VisitScotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Audit reporting is the visible output for the annual audit. All audit outputs will be published on our website: www.audit-scotland.gov.uk.

27. 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 officers to confirm factual accuracy.

28. 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 report and accounts. We will provide VisitScotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

29. [Exhibit 5](#) outlines the target dates for our audit outputs. Due to pressures associated with the Covid-19 pandemic we have agreed an audit timetable consistent with the prior year. This means that we will not meet the Audit Planning Guidance deadline of 31 October 2022, but plan to achieve the statutory requirement of laying the annual report and accounts before Parliament by the end of the calendar year.

Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28/02/2022	10/03/2022
Independent Auditor's Report	31/10/2022	24/11/2022
Annual Audit Report	31/10/2022	24/11/2022

Source: Audit Scotland

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

31. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the delivery of public sector audits whilst at the same time maintaining quality standards.

32. We will continue to work in close partnership with management over timescales throughout the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	5 September 2022
Latest date for final clearance meeting with the Director of Corporate Services	4 November 2022
Agreement of audited and unsigned annual report and accounts	10 November 2022
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report	17 November 2022
Signed Independent Auditor's Report	8 December 2022

Source: Audit Scotland

Audit fee

33. The agreed audit fee for the 2021/22 audit of VisitScotland is £74,930 (2020/21: £75,380). The 2020/21 audit fee was increased due to the risks associated with the first year of group accounts preparation.

34. In determining the 2021/22 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.

35. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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 outwith our planned audit activity.

Other matters

Internal audit

36. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

37. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We will consider the findings of all internal audit reports to inform our work on our wider dimension responsibilities, including the planned work on Covid-19 Tourism Recovery Programme, Strategic Planning and Events Audit – Festival 22.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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 robust arrangements in place 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.

39. The engagement lead (i.e. appointed auditor) for VisitScotland is Carole Grant, Audit 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

40. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

41. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

42. 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.

VisitScotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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