

VisitScotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for VisitScotland and the Auditor General for Scotland

December 2022

Contents

| | |
|---|----|
| Key messages | 3 |
| Introduction | 4 |
| 1. Audit of 2021/22 annual report and accounts | 7 |
| 2. Financial management | 14 |
| 3. Financial sustainability | 17 |
| 4. Governance and transparency | 20 |
| 5. Value for money | 22 |
| Appendix 1. Action plan 2021/22 | 24 |
| Appendix 2. Summary of uncorrected misstatements | 27 |
| Appendix 3. Summary of 2021/22 national performance reports and briefing papers | 28 |

Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The unaudited annual report and accounts were not submitted in line with our agreed audit timetable, however there was good support provided to the audit team to enable us to conclude our work as originally planned.

Financial management and sustainability

- 3 VisitScotland operated within its revised budget in 2021/22 and responded at pace to respond to the Covid-19 Omicron variant.
- 4 Controls within the main financial systems are operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 5 VisitScotland faces a challenging medium-term financial position at a time when the tourism and events sectors are trying to recover from the impact of the Covid-19 pandemic.

Governance and transparency and Value for money

- 6 VisitScotland has appropriate governance arrangements, including a number of good practice areas, which support the scrutiny of decisions.
- 7 VisitScotland has an appropriate and effective best value framework in place and the improved framework for financial budgeting and reporting demonstrates its commitment to continuous improvement.

Introduction

1. This report summarises the findings from our 2021/22 audit of VisitScotland and its group. The scope of the audit was set out in our Annual Audit Plan presented to the 10 March 2022 meeting of the Audit and Risk Committee.
2. This report comprises the findings from:
 - our audit of VisitScotland's 2021/22 annual report and accounts and the issue of an independent auditor's report setting out our opinions
 - a review of VisitScotland's key financial systems
 - audit work covering the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. Covid-19 has continued to have a considerable impact on VisitScotland during 2021/22. As the country emerged from the pandemic, VisitScotland continued to deliver direct support to businesses across the sector by administering several Covid Business Grant Support Schemes, totalling in excess of £30 million.
4. As the tourism and events sectors began to reopen, VisitScotland worked collaboratively at national level, alongside partner organisations and industry representatives, including the Scottish Tourism Emergency Response Group (STERG), to support and sustain these recovery efforts. During the year, VisitScotland also recommenced the delivery of many of its "business as usual" core activities, which saw the launch of several major campaigns and events and the reopening of the 26 iCentres across the country.
5. Risks related to the pandemic were included in our Annual Audit Plan and we have adapted our planned audit work to address any new emerging risks.

Adding value through the audit

6. We add value to VisitScotland through the audit by:
 - identifying and providing insight on significant risks and making clear and relevant recommendations and conclusions
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

Responsibilities and reporting

- 7.** VisitScotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers.
- 8.** VisitScotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 9.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts.
- 10.** Additionally, we conclude on the financial management and arrangements for security financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 11.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 12.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out recommendations, responsible officers and dates for implementation. It also includes actions from last year and the progress that has been made.

Auditor Independence

- 13.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 14.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 audit fee of £74,930 as set out in our 2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 15.** This report is addressed to both VisitScotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

16. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are appointed from Audit Scotland's Audit Services Group or a private firm of accountants. 2021/22 is the last year of the current appointment round.

17. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue as the appointed auditor for VisitScotland.

18. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022.

Acknowledgement

19. We would like to thank all current and former Board members, Audit and Risk Committee members and staff, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

The unaudited annual report and accounts were not submitted in line with our agreed audit timetable, however there was good support provided to the audit team to enable us to conclude our work as originally planned.

Our audit opinions on the annual report and accounts are unmodified

20. The annual report and accounts for the year ended 31 March 2022 were approved by the Board on 13 December 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited annual report and accounts were not submitted in line with our agreed audit timetable, however there was good support provided to the audit team to enable us to conclude our work as originally planned

21. As indicated in our 2021/22 Annual Audit Plan, the agreed audit timetable included the provision of the unaudited annual report and accounts on 5 September 2022. We received the unaudited annual report and accounts on 21 September 2022, however were notified that the Performance Report was subject to change as it had yet to be reviewed by the Board. Feedback on the Performance Report was provided by the Board during the financial statements

audit and a final version of the Performance Report was provided to audit for review on 2 November 2022.

22. The unaudited annual report and accounts were also subject to change during the audit process. Adjustments made to figures on the face of the Statement of Comprehensive Net Expenditure (SoCNE) and the Statement of Financial Position (SoFP), are detailed in [Exhibit 2](#).

Recommendation 1

VisitScotland should review the internal processes for preparing their financial statements for review by audit to ensure that mutually agreed timescales are met.

23. We have modified some aspects of the way we confirm completeness and accuracy of accounting records due to access restrictions. We were unable to physically verify assets in person, however utilised the knowledge of the audit team and local media sources to confirm the existence of significant properties. We were able to share screens remotely and observe the operation of VisitScotland systems and key processing tasks to reconfirm the operation of controls.

24. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

Overall materiality was revised on receipt of the unaudited annual report and accounts to £1.2 million

25. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit when forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values. We also determine a lower performance materiality threshold.

26. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

27. Our initial assessment of materiality (£1.3 million) was carried out during the planning phase of the audit. This was reviewed and revised to £1.2 million on receipt of the unaudited annual report and accounts, mainly as a result of lower than anticipated expenditure in relation to Covid Business Support Grants. Materiality levels are summarised in [Exhibit 1](#). The revised materiality levels did not require a change in our planned audit approach as it did not significantly change the assessment of material account areas.

Exhibit 1

Materiality values

| Materiality level | Amount |
|-------------------------|---------------|
| Overall materiality | £1.2 million |
| Performance materiality | £0.72 million |
| Reporting threshold | £60,000 |

Source: Audit Scotland

We have significant findings to report on the annual report and accounts

28. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

| Issue | Resolution |
|---|--|
| <p>1. Classification of Covid Business Support Grants expenditure</p> <p>Management made an adjustment of £9.9 million to the SoCNE to reclassify Rural Tourism Infrastructure Fund spend, that was incorrectly included in Covid Business Support Grants, to marketing activities.</p> <p>The impact of this is to decrease Covid Business Support Grants and increase marketing activities on the SoCNE by £9.9 million but did not impact overall Resource Expenditure.</p> | <p>We agreed with the £9.9 million reclassification of expenditure.</p> <p>This has been adjusted in the audited annual report and accounts.</p> |
| <p>2. Capitalisation of intangible assets</p> <p>Management made an adjustment of £0.1 million to the SoFP for the capitalisation of intangible assets which had been excluded in error.</p> <p>The impact of this is to increase both Intangible Assets and Trade Payables on the SoFP by £0.1 million.</p> | <p>We agreed the £0.1 million capitalisation.</p> <p>This has been adjusted in the audited annual report and accounts.</p> |

| Issue | Resolution |
|---|---|
| <p>3. Understatement of deferred income</p> <p>Management made an adjustment of £0.2 million to the SoFP for the understatement of deferred income which had been excluded in error.</p> <p>The impact of this is to increase both trade payables and the general reserve on the SoFP by £0.2 million.</p> | <p>This has been adjusted in the audited annual report and accounts.</p> |
| <p>4. Group accounts</p> <p>In the year to 31 March 2022, VisitScotland provided services to CWC Ltd for a fee of £0.5 million. Accounting standards require intra-group transactions to be removed for consolidation purposes. VisitScotland did not remove this transaction when preparing its Group Accounts.</p> <p>The impact of this is to decrease 2023 UCI Cycling World Championships income and expenditure on the SoCNE by £0.4 million, decrease trade payables and trade receivables on the SoFP by £0.1 million.</p> | <p>This has been adjusted in the audited annual report and accounts.</p> |
| <p>5. Utilisation of dilapidations</p> <p>Management made an adjustment to the provision for dilapidations at the year-end, recognising £0.4 million of the amount provided for future dilapidation costs as accruals within trade payables. This reflected leases which were due to end in 2022/23 and were unlikely to be renewed.</p> <p>The timing of the recognition of these costs as accruals in 2021/22 financial year may be too early as firm decisions over the vacation of the properties are yet to be confirmed.</p> | <p>Management chose not to make the adjustment.</p> <p>The audited annual report and accounts have not been adjusted.</p> |
| <p>6. Misstatement of accruals</p> <p>A balance of £0.1 million was included in accruals, but related to an invoice for services that were due to be received in April 2022.</p> <p>A separate balance of £0.1 million was incorrectly included in accruals when it related to credit notes for services due to be received in April 2022.</p> <p>These amounts are should have been recorded in the 2022/23 financial year.</p> | <p>Management chose not to make the adjustments as the net impact would be negligible.</p> <p>We extended our testing sample of accruals and did not identify any further issues.</p> |

29. The SoFP includes £1.9 million of deferred income relating to grant-in-aid funding that was drawdown but not used by the year end. The 2021/22 Financial Reporting Manual requires grant-in-aid to be recognised on a cash basis, unless a direction is received from the sponsor department. VisitScotland received an instruction from the Scottish Government to account for this grant-in-aid as deferred income and utilise it during the 2022/23 financial year. This is the accounting treatment that has been applied in the 2021/22 annual report and accounts.

30. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements identified in our 2021/22 Annual Audit Plan. [Exhibit 3](#) summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|---|
| <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.</p> <p>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"> • Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluated significant transactions outside the normal course of business. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. | <p>Results: Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p>Conclusion: No incidents of management override of controls were identified.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| <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"> Assessed the appropriateness of VisitScotland's accounting policies. Tested journals at the year-end and post-closing entries and focussed on significant risk areas. Assessed 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. | <p>Results: Work undertaken included detailed testing of pre and post year-end transactions including accruals with reference to the agreed accounting policy.</p> <p>Conclusion: Covid-19 transactions had all been processed in accordance with VisitScotland's accounting policy and recognised in the correct financial year.</p> |

Source: Audit Scotland

Other areas of audit focus

31. In our 2021/22 Annual Audit Plan we identified other areas where we considered there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude we did not consider these to represent significant risks. The areas of specific audit focus were:

- Valuation and measurement of Non-Current Assets:** We carried out 'reliance on a management expert' work on the valuer and concluded that we could place reliance on their Asset Valuation Report for the property portfolio. We reviewed the revaluation adjustments throughout the financial statements and confirmed that these had been accurately processed.
- Measurement and judgements applied to the valuation of pension liabilities:** We carried out 'reliance on a management expert' work on the actuary. This included a review of Audit Scotland's consulting actuary's report on actuarial assumptions. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary's valuation of the pension liability. We reviewed the pension adjustments throughout the financial statements and confirmed that these had been accurately processed.

- **Arrangements for the preparation and consolidation of Group Accounts:** We completed the required audit procedures in accordance with International Standard on Auditing (UK) 600 including the receipt of a component auditor questionnaire from the auditors of 2023 Cycling World Championships Limited (CWC Ltd). We reviewed the consolidation adjustments and requested an adjustment for an intra-group transaction that had not been eliminated.

32. We kept these areas under review throughout our audit and there are no matters which we need to bring to your attention.

£10.7 million of adjustments were made to the audited annual report and accounts

33. £10.7 million of adjustments were made to the audited annual report and accounts, of which £9.9 million related to the reclassification of expenditure as detailed in [Exhibit 2](#). We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

34. Adjustments made in the audited annual report and accounts decreased gross expenditure and other income in the Group SoCNE by £0.4 million resulting in a nil impact on net expenditure.

35. Misstatements, totalling £0.5 million, were identified that have not been adjusted by management, as they consider there to be no material effect on the financial statements. These misstatements would have increased both net operating expenditure on the SoCNE and Trade Payables on the SoFP by £18,000 ([Appendix 2](#)).

36. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Good progress was made on prior year recommendations

37. VisitScotland has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

VisitScotland operated within its revised budget in 2021/22 and responded at pace to respond to the Covid-19 Omicron variant.

Appropriate and effective budget setting and financial monitoring processes are in place.

Controls within the main financial systems operated effectively and the arrangements for the prevention and detection of fraud remain appropriate.

VisitScotland operated within its revised budget in 2021/22 and responded at pace to respond to the Covid-19 Omicron variant

38. The main financial objective for VisitScotland is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers to cover revenue and capital expenditure.

39. VisitScotland's initial budget of £49.9 million was increased by £23.8 million as part of the Autumn Budget revisions and a further £16.8 million following the Spring Budget revision. In response to the emergence of the Covid-19 Omicron variant in December 2021, VisitScotland once again had to deliver support schemes at pace for the tourism and events sectors. As a result of this, the Scottish Government provided additional budget of up to £25.7 million. VisitScotland utilised 76 per cent of this additional funding flexibility and reported an annual outturn of £100.3 million against the overall available revenue resource budget for 2021/22.

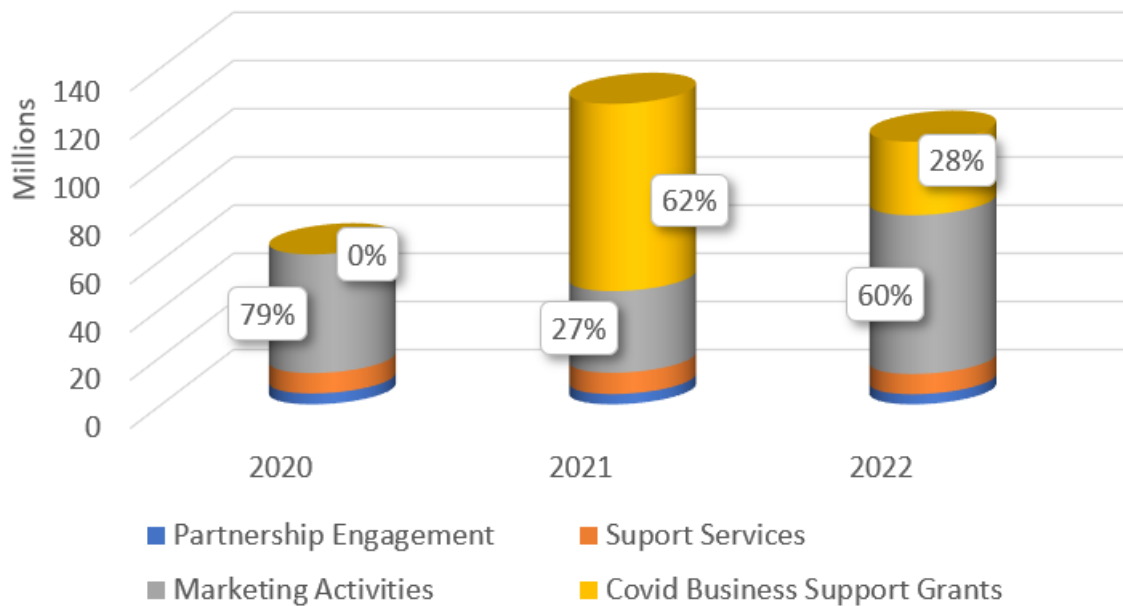
40. VisitScotland had a total capital budget for 2021/22 of £9.8 million and was able to deliver the capital projects at an underspend of £0.7 million mainly due to savings achieved for the Tourism Data Observatory project.

Appropriate and effective budget setting and monitoring processes are in place

41. VisitScotland is in a period of transition. In 2020/21 it was primarily involved in providing direct Covid-19 support to individuals and business across the tourism and events sectors. In 2021/22 work has progressed to developing initiatives to aid economic recovery for the sector as part of a multi-agency national response.

42. In future years VisitScotland's scope will be determined in part by national policies on economic development and key strategic plans to embed longer-term economic recovery and resilience within the sector. [Exhibit 4](#) illustrates how the pandemic has changed the spending patterns over the last three years.

Exhibit 4 Changes to expenditure patterns from 2020 to 2022



Source: VisitScotland Annual Report and Accounts 2019/20 to 2021/22

43. These changes, particularly between Marketing Activities and Covid Business Support Grants, illustrate the impact to VisitScotland of the response to the Covid-19 pandemic. Along with the entire public and private sectors, the organisation has experienced real challenges in recent years which has resulted in a shift in its service priorities and longer-term objectives. This has placed additional pressures on internal resources and management capacity to continue to design and deliver the right type of service.

44. VisitScotland does not normally administer funding programmes of this nature or scale and had to introduce new systems and processes at speed. In our view, VisitScotland implemented adequate systems for recording and processing Covid-19 grant transactions and had appropriate arrangements to reduce the risk of fraudulent or erroneous payments.

45. VisitScotland has also experienced a reduction in its other income over the last two years, due to reduced footfall within iCentres and postponement of the Quality Assurance Scheme. During 2021/22, this income has started to recover, although is still well below pre-pandemic levels.

46. We observed that senior management and the Board continue to receive regular and accurate financial information on VisitScotland's financial position.

Financial systems of internal control are operating effectively

47. As part of our audit, we identify and inspect the key internal controls in the accounting systems we regard as significant in the production of the financial statements. Our objective is to gain assurance that VisitScotland has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

48. Our management letter was issued to the Audit and Risk Committee in June 2022 and included our findings from the review of systems of internal control. We did not identify any internal control weaknesses which could affect VisitScotland's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

49. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. VisitScotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, the Board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

50. As part of our work in 2021/22 we considered the arrangements for addressing fraud risks within procurement activities. This review considered policies and procedures, Codes of Conduct and Ethics, availability of training for staff and Board members, operation of key internal controls and reporting arrangements. Our review concluded that governance arrangements for procurement are appropriate and therefore that the associated risk of fraud is low.

Good practice

51. The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which is worth sharing more widely. In this regard we would highlight VisitScotland's approach and attitude to fraud. In particular, the approach to the design of internal controls within new and existing procedures has a strong focus on the identification and prevention of fraud. The design and implementation of the Covid Business Support Schemes is a good example of this approach.

52. It is clear that there is an established anti-fraud culture within the organisation, including a willingness to learn from others and implement good practice. By continuously reviewing and improving processes and controls identified across higher risk areas susceptible to fraud, such as procurement and supplier payments, the risk of fraud within these areas is significantly reduced. This work is supported by a robust, timely and responsive internal audit plan.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long-term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

VisitScotland faces a challenging medium-term financial position at a time when the tourism and events sectors are trying to recover from the impact of the Covid-19 pandemic.

We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2021/22 Annual Audit Plan

53. [Exhibit 5](#) sets out the results and conclusions from our work on the financial sustainability risk from our 2021/22 Annual Audit Plan.

Exhibit 5

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| <p>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. 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. | <p>Results: Financial management and planning is appropriate. The budgetary position is regularly reviewed at key points in the year. A longer-term financial plan, which is subject to scenario analysis, is being developed. This will ensure that service priorities and decisions are financially sound.</p> <p>Conclusion: VisitScotland has a robust foundation for its strategic financial planning. However, uncertainties in the economic outlook and future public sector finances will mean that financial planning will remain a key challenge.</p> |

VisitScotland must tackle organisational challenges to maintain financial sustainability

54. The economic outlook is uncertain with extraordinary pressures on costs from high inflation, supply chain shortages and high demand for commodities (including goods, services and labour). Recent announcements by the Scottish Government indicate their intentions for planned reductions in overall public sector spending over the coming years to counter the economic downturn.

55. VisitScotland faces a difficult period in setting and operating within a budget which will deliver its corporate objectives and also meet its financial target to operate within financial resource limits set by the Scottish Government. There are a number of elements within the VisitScotland budget which represent significant cost pressures and will require to be carefully managed.

56. VisitScotland's Draft Financial and Workforce Strategy was presented to the Board in June 2022 and included a range of possible future scenarios. The strategy highlights the significant financial pressures being faced with a cumulative deficit funding position forecast over the period 2023/24 to 2026/27 for all scenarios. Given the current economic uncertainty, there is a need to keep key metrics used in financial planning scenarios under review.

Recommendation 2

Key assumptions and judgements used in budget forecasting should be subject to regular review given current economic uncertainty.

57. Employee costs is the single largest element of VisitScotland's budget representing approximately 58 per cent of core Grant-in-Aid. VisitScotland has worked hard over recent years to maintain its payroll costs at a consistent level since 2008 by managing the staffing establishment within available budget allocations. Consequently, some aspects of service delivery have been tailored to match the available staff resource.

58. The current economic situation means that many highly skilled workers are in demand across both the public and private sectors, which is driving up salary costs. This represents a key challenge for VisitScotland to secure the right people, with the right skills, at the right cost. As the organisation sets out to meet the challenges and objectives included in its Corporate Plan, workforce planning will continue to be crucial.

59. In addition to Grant-in-Aid, VisitScotland generates other income, mainly from retail, Quality Assurance fees and collaborative arrangements. This typically represents approximately 10 per cent of core Grant-in-Aid, however the level has been on a reducing trend over recent years. Improving sources of commercial and other income is a key theme identified by VisitScotland as a way of tackling some of the future financial challenges.

60. VisitScotland has already taken action in the last year by reviewing how it operates and delivers services. Whilst much of this is still at an early stage, progress with implementing a hybrid working policy and planning to complete an estates review within the next financial year are clear indications that

VisitScotland are taking action to ensure the efficient use of resources in the delivery of services.

VisitScotland's medium-term financial plan must address some key challenges

61. The financial impact of the pandemic on VisitScotland is likely to extend across several years. There are a number of key policy challenges which require to be incorporated into VisitScotland's corporate and financial plans.

62. The Scottish Government issued its National Strategy for Economic Transformation in March 2022. This sets out the Government's vision for "a more prosperous, fairer and greener economy that works for everyone". This is a strategy which is focused on intervention, collaboration between the public and private sector and building on key strengths within identified sectors. VisitScotland has a key part to play in delivering this plan.

63. Throughout the past two years, VisitScotland has taken a lead role in delivering economic support to businesses and individuals in the tourism and events sectors. As Chair of the STERG, VisitScotland participated in the design and delivery of Covid Business Support Schemes. This work continues as multi-agency plans are formulated to deliver key actions which will ensure the longer-term economic recovery and sustainability of tourism within Scotland.

64. VisitScotland is also in the process of producing a new Corporate Strategic Plan. This plan will need to incorporate many of the actions outlined above and also provide for the key corporate objectives being developed to promote Scotland as a tourism destination. For example the recent launch of the Responsible Tourism campaign is concerned with making tourism sustainable and greener whilst promoting economic growth. This is a wide ranging and extensive policy, which will impact on and shape many aspects of VisitScotland's work in the future.

65. The medium-term financial plan must be able to clearly demonstrate how VisitScotland intends to allocate its financial resources to support the delivery of a complex set of objectives. Much of this work has commenced and a robust framework and timetable has been established and agreed by the VisitScotland Board for the preparation of future financial plans.

Recommendation 3

VisitScotland must now deliver the Corporate Plan and longer-term financial plan that reflects the Covid-19 recovery landscape and supports the Scottish Governments National Strategy for Economic Transformation.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

VisitScotland has appropriate governance arrangements, including a number of good practice areas, which support the scrutiny of decisions.

Governance arrangements are appropriate

66. The continued impact of Covid-19 on VisitScotland during 2021/22, and the role that VisitScotland continues to play in providing financial and delivering a longer-term response to support the tourism and events sectors, has been set out in the performance report in the annual report and accounts. We initially reported in our 2019/20 annual report on the revised governance arrangements introduced by VisitScotland due to the Covid-19 pandemic. During 2021/22, Board and committee meetings were to be held both virtual and hybrid settings.

67. We recognise and acknowledge management's response during the year to the request by the Audit and Risk committee to review the level of detail provided in board papers presented for consideration by members. We consider it appropriate for members to be able to define their information requirements to allow them to receive the appropriate quantity of information to support their scrutiny and decision making. Too much detail or unnecessary information can dilute the focus on key issues.

68. We concluded that VisitScotland has appropriate governance arrangements in place as set out within the Governance Statement in the annual report and accounts. In making this assessment we considered the structure and conduct of Board and committee meetings alongside the overall arrangements to ensure appropriate standards of conduct. Consideration was also given to the arrangements for the prevention and detection of fraud, error, bribery and corruption, including the response to the National Fraud Initiative.

VisitScotland should continue to review arrangements to ensure it is operating in an open and transparent manner

69. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

70. The availability of information online continues to be important in the current climate. This is particularly so for an organisation like VisitScotland which continues to have a significant role in the Covid-19 response and longer-term recovery of the tourism and events sectors.

71. There is scope to strengthen VisitScotland's approach to openness and transparency by ensuring that up to date information is made available virtually. Whilst VisitScotland publishes Board minutes and action plans on its website, Board papers and committee meeting minutes are not publicly available. In addition, performance against KPIs is not regularly reported on its website.

The performance report captures the challenging year for the tourism and events industry

72. In addition to the opinion on the performance report covered earlier in our Annual Audit Report, we also consider the qualitative aspects of VisitScotland's performance report. 2021/22 was a challenging year for the tourism and events industry and the performance report captures this disruptive period of time. It provides information on VisitScotland's main objectives and the principal risks it is facing, alongside an analysis of its performance. We recognise the work that VisitScotland has put in to developing this report.

Good practice

73. We would highlight aspects of the governance arrangements that support the work of the Board and its committees as being good practice including:

- the regular committee updates on legislation and regulation changes that are accompanied by an evaluation of the impact for VisitScotland,
- the detailed and robust evaluation of CyberSecurity risks and the organisational response considered by the Audit and Risk committee, which demonstrates a high level of oversight and challenge by those charged with governance in a complex technical area,
- in-depth scrutiny sessions and presentations, allowing members to focus on specific aspects of VisitScotland's business activities, ask questions and hold officers to account.

5. Value for money

Using resources effectively and continually improving services

Main judgements

VisitScotland has an appropriate and effective best value framework in place.

The improved framework for financial budgeting and reporting demonstrates VisitScotland's commitment to continuous improvement.

VisitScotland has an appropriate Best Value framework in place

74. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

75. VisitScotland has a robust approach to gaining assurance in this regard including periodically completing self-assessments against key guidance, such as the Audit Scotland Best Value toolkits. This work has been completed by management in 2013, 2016 and again in 2019. We note management's intention to review its arrangements against the self-assessment criteria during the 2022/23 financial year in line with its Best Value policy which states that VisitScotland will undertake a review of Best Value every three years.

Published performance indicators for 2021/22 are limited in scope due to the impact of the Covid-19 pandemic

76. VisitScotland's focus is on economic impact and therefore its key performance indicators are derived from its Economic Measurement Framework. The impact of the Covid-19 pandemic over the last two years severely restricted economic activity across the tourism and events sectors.

77. In 2020/21 no key performance indicator data was published by VisitScotland. As the sector began to reopen during 2021/22, VisitScotland has been able to collate limited performance data. These indicators reflect the economic consequences of the pandemic and experiences within the sector, rather than the performance of VisitScotland as an organisation and its role within the sector.

The improved framework for financial budgeting and reporting demonstrates VisitScotland's commitment to continuous improvement

78. VisitScotland has committed to making improvements to its financial planning and reporting processes. Progress in developing a framework and timetable for budget preparation and reporting of results has been clearly visible over the course of the year.

79. The proposed framework and content of financial reports to the Board seek to link financial performance with key strategic themes contained in the Corporate Plan. Future reports will also aim to include reporting on sustainability and environmental impact alongside the more traditional themes. This demonstrates VisitScotland's commitment to continuous improvement.

National performance audit reports

80. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of interest to VisitScotland. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

| Issue / risk | Recommendation | Agreed management action / timing |
|--|--|---|
| <p>1. Compliance with agreed timescale for audit of Financial Statements</p> <p>The unaudited annual report and accounts were not received in line with our agreed audit timetable and key elements were subject to change once the audit process had commenced.</p> <p><i>Risk – an efficient audit process cannot be delivered impacting on the delivery of the audited annual report and accounts.</i></p> | <p>VisitScotland should review the internal processes for preparing their financial statements for review by audit to ensure that mutually agreed timescales are met.</p> <p>Paragraph 21. - 22.</p> | <p>Agreed - internal processes are being revised.</p> <p>Responsible officer: Head of Financial Services</p> <p>Target date: March 2023</p> |
| <p>2. Budget forecasts contain factors which are subject to change</p> <p>Budget forecasts are based on a set of parameters which determine a best case, mid-case and worst-case scenario. Some of these factors are highly volatile and subject to change.</p> <p><i>Risk – budget forecasts may predict significantly inaccurate results.</i></p> | <p>Key assumptions and judgements used in budget forecasting should be subject to regular review given current economic uncertainty.</p> <p>Paragraph 56.</p> | <p>Agreed - update provided to Board meeting (October 2022) and will be subject to continuous on-going reviews thereafter.</p> <p>Responsible officer: Head of Corporate Governance and Business Performance</p> <p>Target date: March 2023</p> |

| Issue / risk | Recommendation | Agreed management action / timing |
|--|---|--|
| <p>3. Corporate Strategic Plan and longer-term financial planning</p> <p>The tourism and events sectors are still recovering from the impact of the Covid-19 pandemic.</p> <p>VisitScotland has a critical role in the recovery of the sector and is in the process of agreeing a new Corporate Strategic Plan and embedding the longer-term financial planning framework to support it.</p> <p><i>Risk – longer-term plans are not sufficiently aligned to deliver VisitScotland’s key role in the Covid-19 recovery for the tourism and events sectors.</i></p> | <p>VisitScotland must now deliver the Corporate Plan and longer-term financial plan that reflects the Covid-19 recovery landscape and supports the Scottish Governments National Strategy for Economic Transformation.</p> <p>Paragraph 63. - 65.</p> | <p>Agreed – delivery of the Corporate Strategic Plan and longer-term financial planning is being prioritised.</p> <p>Responsible officer: Head of Corporate Governance and Business Performance</p> <p>Target date: May 2023</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation | Agreed management action / timing |
|---|--|--|
| <p>b/f. Medium to long term financial plan</p> | <p>VisitScotland should keep under review the adequacy of the resource requirements across the organisation to ensure that there is sufficient capacity to successfully support longer-term financial sustainability through effective financial planning and performance reporting.</p> | <p>In progress – see Recommendation 3 above.</p> |
| <p>b/f. Performance reporting</p> | <p>VisitScotland should review Audit Scotland’s good practice note on improving the quality of central government annual report and accounts when preparing their 2021/22 performance report.</p> | <p>Complete – revisions and improvements to the Performance Report are addressed as part of a continuous improvement process.</p> |

| Issue/risk | Recommendation | Agreed management action / timing |
|--|--|--|
| b/f 2019/20. Strategic Framework and Corporate Plan | VisitScotland should assess what changes have enabled it to respond to the Covid-19 pandemic and what this means for its future operating model, strategic framework and corporate plan. An annual and corporate plan is needed to set out its short and medium-term response and priorities and how this will be achieved | In progress – see Recommendation 3 above. |

Appendix 2. Summary of uncorrected misstatements

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

| Account areas | Statement of Comprehensive Net Expenditure | | Statement of Financial Position | |
|----------------------------|--|------------|---------------------------------|------------|
| | Dr £000 | Cr £000 | Dr £000 | Cr £000 |
| (i) Trade Payables | | | 371 | |
| Provisions | | | | (371) |
| (ii) Marketing Activities | | (67) | | |
| Trade Payables | | | 67 | |
| (iii) Marketing Activities | 85 | | | |
| Trade Payables | | | | (85) |
| Net Impact | 18 | | | 18 |

Notes: The uncorrected misstatements relate to i) utilisation of dilapidations provision; ii) overstatement of accruals at 31 March 2022 and iii) understatement of accruals at 31 March 2022.

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

VisitScotland

2021/22 Annual Audit Report

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:

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