

VisitScotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for VisitScotland

December 2016

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 committee meetings and a review of supporting information we have identified the following main risk areas for VisitScotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</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>Internal audit assignments act as checks.</p> <p>No history of fraud in this area.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant accounting estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure has been accounted for in the correct financial year.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p>

Audit Risk	Management assurance	Planned audit work
<p>2 Risk of fraud over income</p> <p>ISA240 requires auditors to presume a risk of fraud where income streams in addition to Scottish Government funding are significant. VisitScotland receives approximately 20% of income from sources other than Scottish Government funding, including retail and commercial income and European grants. 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>Effective budget monitoring by management.</p> <p>Internal audit review of budgeting and budgetary control.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> <p>Detailed cut-off testing of income streams.</p> <p>Detailed analysis of EU income.</p> <p>Consideration of internal audit's review of budgeting and budgetary control.</p>
<p>3 Estimation and judgements</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. VisitScotland accounts for its participation in the British Tourism Board's Pension Scheme and Local Government Pension Schemes in accordance with IAS 19 Retirement benefits, using valuation reports prepared by VisitScotland actuaries. There is an inherent risk with the determination of pension charges 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.</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 professional valuers.</p> <p>Review of accounting estimates and pension disclosures.</p> <p>Focused substantive testing of key areas including data VisitScotland provides to its actuaries.</p>
<p>4 Narrative disclosures</p> <p>For 2016/17 there is a new requirement for auditors to give an opinion on whether the management commentary and governance statement have been prepared in accordance with applicable legal requirements for all audited bodies. There is a risk that appropriate information is not available to meet these requirements.</p>	<p>Financial statements preparation will include consideration of requirements for narrative disclosures.</p>	<p>Review the disclosures in the performance and accountability reports.</p>

Audit Risk	Management assurance	Planned audit work
<p>5 Expenses</p> <p>There is a risk that financial controls and policies in place for expenses may not prevent or detect errors or deliberate manipulation.</p>	<p>There are plans to review expenses controls and reporting to ensure earlier detection of errors.</p>	<p>Consideration of VisitScotland review of expenses controls and reporting.</p> <p>Focused substantive testing of expenses.</p>
Wider dimension risks		
<p>6 Financial sustainability</p> <p>VisitScotland's grant-in-aid fluctuates from year to year, depending on additional Scottish Government's funding for delivering major events such as the Ryder Cup. Excluding this additional funding, VisitScotland's core grant-in-aid has been broadly similar in cash terms since 2014/15 - £39.7 million in 2014/15, £42.5 million in 2015/16 and £40.4 million in 2016/17. In 2017/18, it is expected to remain at £40.4 million, representing a 1.5 per cent decrease at 2016/17 prices. VisitScotland has recognised a risk that income from other sources may not be sufficient for the organisation to meet its long-term objectives.</p>	<p>Risks are recognised in the strategic risk register and discussed at Board and Audit and Risk Committee meetings as appropriate.</p> <p>Review of corporate commercial income generation is underway.</p>	<p>Review of approach to longer-term financial planning, including any medium to long-term forecasting or scenario planning.</p>
<p>7 Pensions liabilities</p> <p>VisitScotland participates in twelve Local Government Pension Schemes, the majority of which have reducing membership that could ultimately result in their closure. This combined with uncertainty around the valuation of the British Tourism Board pension scheme, means that there is a risk that pension liabilities will increase and therefore result in significant increase in annual employer contributions for VisitScotland.</p>	<p>The Scottish Government has provided VisitScotland with a signed guarantee for their pension liabilities with Fife Council Superannuation Fund and with letter of support for the British Tourism Board pension scheme.</p> <p>VisitScotland is now in the process of securing guarantees for the other Local Government Pension Schemes.</p>	<p>Monitor developments with pension schemes, including any liabilities and guarantees.</p>
<p>8 Financial management - year end outturn</p> <p>The approved budget for 2016/17 shows income and expenditure of £53.1 million. Income includes £3.4 million of European Regional Development Fund grant but, as at November 2016, VisitScotland has not yet received this funding. Grant-in-aid may also be subject to change through the Autumn and Spring Budget Revisions. While</p>	<p>On-going discussions with the Managing Authority and the lead partners regarding the sign-off of the European Regional Development Fund grant offer letter.</p> <p>On-going work with the Scottish Government sponsor team to ensure that all additional grant-in-aid allocations for 2016/17 are funded through the Autumn Budget Revision.</p>	<p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>Review VisitScotland's achievement of outturn at year end.</p> <p>Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Consideration of internal audit's review of budgeting and</p>

Audit Risk	Management assurance	Planned audit work
financial monitoring reports for 2016/17 project a year-end breakeven position overall, there is a risk that VisitScotland will not break even in 2016/17.	These risks are also recognised in the strategic risk register and discussed at Board and Audit and Risk Committee meetings as appropriate. Internal audit review of budgeting and budgetary control.	budgetary control.
<p>9 Workforce planning</p> <p>VisitScotland does not have an organisation-wide workforce plan. It has recognised a significant risk that it may not be able to retain or attract staff with appropriate skills for delivering core services. There is a risk that VisitScotland is unable to deliver its corporate strategy due to skills gaps in key departments.</p>	<p>A number of mitigating actions are in place such as the 2016/17 learning plan.</p> <p>People strategy is under development.</p>	<p>Monitor progress with the preparation of the organisation-wide workforce plan.</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, once they have been finalised and considered by the Audit and Risk Committee.

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 and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. 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

2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Interim Report	March 2017	April 2017
Annual Audit Report including ISA 260 requirements	September 2017	September 2017
Signed Independent Auditor's Report	October 2017	N/A

Audit fee

6. The agreed audit fee for the 2016/17 audit of VisitScotland is £68,370. 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, excluding the performance report, on 17 July 2017
- the performance report on 14 August 2017.

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 outwith our planned audit activity.

Responsibilities

Audit 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, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on 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. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. 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
Planning materiality - 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 2017 based on the latest budget for 2016/17.	£538,000
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 calculated performance materiality at 75% of planning materiality.	£404,000
Reporting threshold - 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

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

Timetable

16. 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. 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 draft unaudited financial statements, excluding the performance report, by those charged with governance	30 June 2017
Latest submission date of unaudited financial statements with complete working papers package excluding the performance report	17 July 2017
Latest submission date of the performance report	14 August 2017
Latest date for final clearance meeting with Director of Corporate Services and Head of Finance	4 - 8 September 2017
Agreement of audited unsigned financial statements	18 September 2017
Issue of final Annual Audit Report including ISA 260 report to those charged with governance	21 September 2017
Independent auditor's report signed	2 - 6 October 2017

Internal audit

17. 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. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

18. Our review of internal audit concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Based on our review of internal audit plans, we intend to place specific reliance on internal audit's work as outlined in paragraphs 19 and 20 below.

Areas of reliance

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

- Budgeting and budgetary control
- Fixed assets
- European Regional Development Fund (ERDF).

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

- Corporate governance
- Regulatory compliance
- Post-implementation review of VisitScotland website.

Audit dimensions

21. 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



22. As part of our responsibility to report on the four audit dimensions, we have identified specific areas of proposed audit work for 2016/17 and these are outlined in paragraphs below. We will do further work over the five-year audit appointment.

Financial sustainability

23. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We also comment on the body'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
- whether VisitScotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

24. Since 2014/15, VisitScotland's grant-in-aid decreased by 17 per cent. There is uncertainty over funding beyond one year and VisitScotland has also recognised a risk that income from other sources may not be sufficient for the organisation to meet its long-term objectives. Uncertainty around the valuation of the British Tourism Board pension scheme and reducing membership in a number of Local Government Pension Schemes could result in significant liabilities for VisitScotland. We will review VisitScotland's approach to longer-term financial planning, including any medium to long-term forecasting or scenario planning.

25. There were no other significant financial sustainability risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Financial management

26. 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 the 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.

27. Financial monitoring reports for 2016/17 project a year-end breakeven position overall but, as at November 2016, VisitScotland has not yet received the European Regional Development Fund grant of £3.4 million that is included in the budget. Grant-in-aid may also be subject to change through the Autumn and Spring Budget Revisions. We will review budget monitoring reports and monitor any updated to the financial plan.

28. There were no other significant financial management risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Governance and transparency

29. 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 and finance and performance reports
- the quality and timeliness of financial and performance reporting.

30. In September 2010 the Auditor General published a national report on the Role of Boards. The report highlighted a number of key messages on the role of boards and how they are accountable to the Scottish Government and the Scottish Parliament, board members' skills and expertise and how boards operate. In 2016/17 Audit Scotland will conduct a follow up of this report and we will contribute to the intelligence by conducting a review of local arrangements at VisitScotland.

31. VisitScotland does not have an organisation-wide workforce plan and has recognised a significant risk that it may not be able to retain or attract staff with appropriate skills for delivering core services. This could mean that VisitScotland is unable to deliver its corporate strategy due to skills gaps in key departments. We will monitor VisitScotland's mitigating actions in this area.

32. There were no other significant governance and transparency risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Value for money

33. 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 its achievement of performance targets.
- VisitScotland can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- VisitScotland can demonstrate that outcomes are improving and there is sufficient focus on improvement and the pace of it.

34. There were no significant value for money risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Independence and objectivity

35. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

36. The engagement lead for VisitScotland is Mark Taylor, Assistant 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

37. 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.

38. 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 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.

39. 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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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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