

VisitScotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for VisitScotland and the Auditor General for Scotland

November 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. Significant findings and key audit matters from the audit are outlined in [Exhibit 2](#).
- 3 Officers made adjustments of £30.2 million to the annual report and accounts.

Financial management

- 4 Appropriate and effective financial management arrangements are in place with regular budget monitoring reports provided to the Board.
- 5 VisitScotland operated within its fiscal resources with an underspend of £1.5 million relating to ring-fenced funding which was not required and was retained by the Scottish Government.
- 6 Standards for the prevention and detection of fraud remain appropriate.
- 7 There is scope for enhancing some internal controls.

Financial sustainability

- 8 Appropriate arrangements are in place to continue to deliver services.
- 9 VisitScotland approved a balanced budget for 2023/24 but there were significant challenges in achieving that position.

Vision, leadership and governance

- 10 VisitScotland has plans in place to implement its vision, strategy, and priorities.
- 11 Governance arrangements are appropriate, however VisitScotland should continue to review arrangements to ensure it is operating in an open and transparent manner.

- 12** Senior management and non-executive directors demonstrate effective leadership, challenge, and scrutiny of the organisation's activity and performance.

Use of resources to improve outcomes

- 13** 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.
- 14** Key performance indicators highlighted improvement in economic activity within the sector, however some areas of the economy are taking longer to recover.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of VisitScotland. The scope of the audit was set out in an annual audit plan presented to the March 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of VisitScotland's annual report and accounts, and
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Risk Committee of 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

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of VisitScotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. 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. VisitScotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. 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 of VisitScotland from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. 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. We are not aware of any relationships that could compromise our objectivity and independence.

10. The Annual Audit Plan set out an audit fee of £97,850 for the 2022/23 audit. However, a rebate of £4,432 was issued, relating to previous years' audit fees, resulting in a final audit fee of £93,418.

11. We add value to VisitScotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations,
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability, and
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. Significant findings and key audit matters from the audit are outlined in Exhibit 2.

Officers made adjustments of £30.2 million to the annual report and accounts.

Audit opinions on the annual report and accounts are unmodified

12. The Board approved the annual report and accounts for VisitScotland and its group for the year ended 31 March 2023 on 14 December 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the financial reporting framework
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited annual audit report and accounts and working papers were received in line with the agreed audit timetable

13. In line with the timetable set out in our Annual Audit Plan, we received the annual report and accounts and working papers in line with the agreed audit timetable. We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

Overall materiality was assessed as £1.4 million

14. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

15. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Single entity	Group
Overall materiality	£1.4 million	£1.4 million
Performance materiality	£0.9 million	£0.9 million
Reporting threshold	£71,000	£71,000

16. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

17. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting the fact there were no significant issues identified in the prior year audit impacting our audit approach and no history of errors being communicated to us by the previous audit team.

18. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

19. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

20. The Code of Audit Practice 2021 also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

21. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Accounting Treatment of Pension Asset</p> <p>VisitScotland operate two pension schemes: the British Tourist Boards' Pension Scheme (BTBPS) and the Local Government Pension Scheme (LGPS).</p> <p>2022/23 represented the first year that the LGPS had recognised a net pension asset of £31.5 million. Proper accounting practice, as outlined in International Accounting Standard (IAS) 19 and International Financial Reporting Interpretations Committee (IFRIC) 14 states that the pension asset should be recognised at the lower of the surplus or the pension asset ceiling.</p> <p>VisitScotland recognised an asset of £2.4 million in their unaudited accounts in line with the requirements of IAS 19 and IFRIC 14. However, the adjustment for the asset ceiling had been processed incorrectly through reserves in the Statement of Changes in Taxpayers' Equity.</p> <p>The impact of this is to increase the actuarial (gains)/losses recognised in retirement benefit scheme and asset ceiling on the Statement of Comprehensive Net Expenditure by £29.1 million</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>

Issue	Resolution
<p>and decrease the restriction of surplus in the Statement of Changes in Taxpayers Equity by £29.1 million.</p> <p>This has no impact on the net position.</p>	
<p>2. IAS 19 Adjustment for Pension Contributions</p> <p>The IAS 19 report provided by the actuary for BTBPS did not include all 2022/23 pension contributions paid by VisitScotland. A revised IAS 19 report was obtained from the actuary.</p> <p>The overall impact of this is to increase Pension Costs - IAS 19 adjustments on the Statement of Comprehensive Net Expenditure by £0.1 million and decrease the general reserve by £0.1 million in the Statement of Financial Position.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>
<p>3. IFRS 16 Leases</p> <p>International Financial Reporting Standard (IFRS) 16 – Leases was effective from 1 April 2022 and has been adopted for the first time in the 2022/23 financial statements. However, the opening balances did not include all future lease payments as at 1 April 2022 in line with the requirements of IFRS 16.</p> <p>This related to the lease at Ocean Point whereby two floors were vacated during the 2022/23 financial year and excluded from the calculation. This resulted in a correction to the treatment of prepayments and disposals for this property in line with IFRS 16.</p> <p>The overall impact of this is to increase depreciation on the Statement of Comprehensive Net Expenditure by £0.1 million, increase right of use assets by £0.2 million and decrease lease liabilities by £0.1 million in the Statement of Financial Position.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>
<p>4. Fair Pay Disclosure</p> <p>The Fair Pay Disclosure within the Remuneration and Staff Report is considered to be material by nature of the user of the annual report and accounts.</p> <p>There were a number of errors identified in the underlying calculations presented in the Fair Pay</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>

Issue	Resolution
Disclosure note within the unaudited annual report and accounts.	
<p>5. Classification of capital payables</p> <p>Capital expenditure incurred but not yet paid of £0.3 million had been incorrectly included in the Cash Flow Statement.</p> <p>The impact of this is to decrease net cash flow from operations and net cash flow from investing activities by £0.3 million.</p> <p>This has no impact on the net position.</p>	Management have adjusted for this in the audited annual report and accounts.
<p>6. Group Consolidation Adjustments</p> <p>The group balances included within the unaudited annual report and accounts had not been updated for the adjustments to the Cycling World Championships Limited (CWC Ltd) annual report and accounts.</p> <p>The impact of this is to decrease both trade and other receivables and trade and other payables in the Statement of Financial Position by £0.5 million.</p> <p>This has no impact on the net position.</p>	Management have adjusted for this in the audited annual report and accounts.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

22. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also 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 annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud	<ul style="list-style-type: none"> Assessed the design and implementation of controls over journal entry processing. 	Results: Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as

Audit risk	Assurance procedure	Results and conclusions
<p>caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in all audits.</p>	<ul style="list-style-type: none"> • 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 entries with a focus on significant risk areas. • Considered the need to test journal entries and other adjustments during the period. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>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>

23. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **IFRS 16 implementation:** we assessed the design and implementation of controls over the implementation of IFRS 16. We reviewed the opening balance adjustments throughout the financial statements and identified a misstatement as outlined in [Exhibit 2](#).
- **Estimations in valuation of pension assets and liabilities:** we assessed the design and implementation of controls over the valuation of pensions. We carried out ‘reliance on a management expert’ work on the actuary. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary’s valuation of the pension asset. We reviewed the pension adjustments throughout the financial statements and identified a misstatement as outlined in [Exhibit 2](#).

Officers made adjustments of £30.2 million to the annual report and accounts

24. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making correction lies with those charged with governance. There are no unadjusted misstatements to report.

25. Adjustments to the annual report and accounts totalled £30.2 million. This includes the adjustments set out in [Exhibit 2](#). Adjustments made in the audited annual report and accounts decreased total comprehensive net expenditure in the Statement of Comprehensive Net Expenditure by £28.8 million and decreased net assets in the Statement of Financial Position by £0.1 million.

26. We have reviewed the nature and cause of these adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

Good progress was made on prior year recommendations

27. VisitScotland has made good progress in implementing the audit recommendations identified in the prior year Annual Audit Report. All prior year recommendations have been implemented and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Appropriate and effective financial management arrangements are in place with regular budget monitoring reports provided to the Board.

VisitScotland operated within its fiscal resources with an underspend of £1.5 million relating to ring-fenced funding which was not required and was retained by the Scottish Government.

Standards for the prevention and detection of fraud remain appropriate.

There is scope for enhancing some internal controls.

Appropriate and effective financial management arrangements are in place with regular budget monitoring reports provided to the Board

28. Senior management and members receive regular and accurate financial information on VisitScotland's performance against budgets. These reports allow officers and members to scrutinise financial performance effectively throughout the year.

VisitScotland operated within its fiscal resources with an underspend of £1.5 million relating to ring-fenced funding which was not required and was retained by the Scottish Government

29. The main financial objective for VisitScotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

30. VisitScotland reported an outturn of £71.3 million against its overall budget of up to £72.7 million. The financial performance against fiscal resources is shown in [Exhibit 4](#).

Exhibit 4**Performance against fiscal resource in 2022/23**

Performance	Final budget (up to) £m	Outturn £m	Over/(under) utilised £m
Resource	58.8	57.2	(1.6)
Capital	5.3	5.3	-
Total fiscal resource	64.1	62.5	(1.6)
Non-Cash	2.5	2.1	(0.4)
AME	6.1	6.7	0.6
Total budget allocation	72.7	71.3	(1.4)

Source: 2022/23 VisitScotland Annual Report and Accounts

31. The fiscal resource position noted in the table above was in the main due to £1.5 million of ring-fenced funding not required for the delivery of Scotland's Dandelion project and as such was retained by the Scottish Government.

32. In addition to the fiscal resources outlined in [Exhibit 4](#), VisitScotland receives allocations from the Scottish Government for non-cash costs (e.g. depreciation) and annually management expenditure (AME) (e.g. movements in pensions and provisions). Both of these can be unpredictable and out with the control of management.

33. £0.4 million of the non-cash allocation was not utilised in year and £0.6 million of the AME allocation was exceeded during the year. Including the fiscal resource allocation not utilised in year of £1.5 million, VisitScotland spent £1.4 million less than its full budget allocation.

Budget processes were appropriate

34. VisitScotland's budget was adjusted as part of the Autumn and Spring Budget revision. The most significant revisions over the course of the year included:

- Increase in RDEL of £9.0 million for the 2023 UCI Cycling World Championships, which helped deliver a significant sporting event hosted across Scotland which attracted participants from around the world.

- Increase in RDEL of £5.6 million in ring-fenced funding for the Unboxed Events (Dandelion) which supports part of a nationwide series of cultural events.

Net assets increased by £16.2 million

35. VisitScotland's net assets at the year-end increased by £16.2 million from a net liability of £11.4 million in 2021/22 to a net asset of £4.8 million in 2022/23. Whilst the overall movement is an increase in net assets, there have been significant upward and downward movements in assets and liabilities on the Statement of Financial Position. The most significant movements are:

- Right of Use Assets have increased by £4.7 million in year due to the implementation of IFRS 16
- Recognition of Retirement Benefit Asset for LGPS of £2.4 million for 2022/23 which has moved from a liability of £0.5 million in 2021/22 due to changes in actuarial assumptions
- Cash and Cash Equivalents have decreased by £8.4 million, reflecting movements in working capital
- Decrease in Trade and Other Payables of £9.6 million due to the cessation of Covid Business Support Grant payments
- Lease Liabilities have increased by £4.5 million in year due to the implementation of IFRS 16
- Decrease in BTBPS Retirement Benefit Obligations of £13.9 million due to changes in actuarial assumptions.

There is scope for enhancing some internal controls

36. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we noted the following areas where there is scope for improvement to the operation of certain internal controls:

- There are no formal periodic existence / verification checks completed for assets recorded on the Fixed Asset Register. We understand that some departments maintain a listing of assets which they control and these lists are used to inform the completion of the Fixed Asset Register. The design and implementation of key controls over the existence of assets within the Fixed Asset Register could be improved.
- Several weaknesses were identified in the contract monitoring and invoicing processes for managing lease agreements and in the operation of the Oracle Leases module, which may lead to the incorrect valuation of lease liabilities when changes are made to the underlying Right of Use Asset.

Recommendation 1

Management should review the controls around fixed assets in order to ensure they are sufficiently robust.

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

37. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

38. We concluded that VisitScotland has appropriate arrangements for the prevention and detection of fraud, error, and irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and register of interests. We concluded that VisitScotland has established procedures for preventing and detecting any breaches of these standards.

National Fraud Initiative

39. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NFI data matches were issued to VisitScotland in January 2023 as part of the NFI exercise for 2022/23. VisitScotland have investigated and cleared all high risk matches and a sample of other matches that were identified through the NFI exercise prior to the deadline of 30 September 2023.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

Appropriate arrangements are in place to continue to deliver services.

VisitScotland approved a balanced budget for 2023/24 but there were significant challenges in achieving that position.

VisitScotland has appropriate financial planning and budget setting processes in place

40. VisitScotland has established a financial planning framework which ensures that the organisation is able to set a balanced budget for the current year and also consider the medium to longer-term outlook. The process of financial budgeting and planning is a rolling programme of activity, which takes account of emerging trends, policy changes and organisational strategies.

41. VisitScotland's initial annual budget for 2023/24 was approved by the Board in March 2023. VisitScotland forecasts additional costs arising, largely as a result of inflation, increases in supply chain costs, staff salaries and reduced Grant in Aid funding allocations from Scottish Government. As a result, VisitScotland has a plan focussing on aligning the service delivery models and delivering the required public services within the forecast financial envelope.

VisitScotland approved a balanced budget for 2023/24 but there were significant challenges in achieving that position

42. VisitScotland's initial budget allocation from the Scottish Government for 2023/24 was £45.1 million for the Fiscal Resource allocation and £5.6 million for the Fiscal Capital allocation. The allocations can change over the course of the year as part of the Autumn and Spring budget revisions.

43. VisitScotland's 2023/24 budget outlines a balanced position for the Fiscal Resource budget. This position is based on anticipated expenditure of £48.7 million being offset against income of £48.7 million which comprises the initial budget allocation from the Scottish Government of £45.1 million and receipts of £3.7 million from retail and commercial sources.

44. Significant pressures and risks have been identified which may affect the organisation's ability to operate within budget. These include:

- Reductions in Scottish Government funding continuing and a lack of funding resources within the events and tourism sectors
- Commercial income generation being insufficient to support reductions in Scottish Government funding
- Cost inflation for services and salaries outstripping Scottish Government funding and commercial income.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

VisitScotland has plans in place to implement its vision, strategy, and priorities.

Governance arrangements are appropriate, however VisitScotland should continue to review arrangements to ensure it is operating in an open and transparent manner.

Senior management and non-executive directors demonstrate effective leadership, challenge, and scrutiny of the organisation's activity and performance.

VisitScotland has plans in place to implement its vision, strategy and priorities

45. VisitScotland's current three-year strategy covers the period 2021-2024. The vision outlined in the strategy is that "Scotland is a leader in 21st century tourism with a thriving, responsible visitor economy". The strategy is guided by the shared industry ambition, Scotland Outlook 2030 and contributes to the National Strategy for Economic Transformation (NSET). The plan sets out a strategic framework to deliver the strategy that aligns to NSET and the key outcomes that VisitScotland will look to achieve through delivery of the strategy.

46. The strategy outlines five key pillars:

- Enhancing our organisation insight, capability, planning and compliance
- Stimulating global demand
- Supporting and enabling our people
- Supporting Scotland's tourism and events businesses

- Working collaboratively with community, sector and destination organisations towards a responsible recovery

47. Monitoring and oversight of performance against the Strategic Plan is regularly reviewed by the Board and senior leadership team. A comprehensive framework of reporting has been developed to provide a coordinated view of financial performance, Key Performance Indicators, risk and assurance and carbon monitoring. Budgets have been aligned to each of the strategic pillars to allow reporting of financial performance, capturing a unique perspective of organisational performance. The design of the internal reporting framework tackles a difficult concept in reporting performance against strategic objectives and is considered to be an example of good practice.

Governance arrangements are appropriate, however VisitScotland should continue to review arrangements to ensure it is operating in an open and transparent manner

48. VisitScotland's governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.

49. There continues to be an increasing focus on demonstrating the best use of public money. 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.

50. There remains 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.

VisitScotland's executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance

51. The Chief Executive and senior leadership team are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered within VisitScotland.

52. We have concluded that VisitScotland's senior management and non-executive directors have demonstrated effective leadership and scrutiny of VisitScotland's activity and performance in 2022/23. Going forward, senior management and non-executive directors will have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

53. Internal Audit is provided by Azets, an external audit provider. We noted that during the year the appointed Head of Internal Audit was seconded to the role of Head of Governance and Performance for a three-month period. This is a senior leadership role within VisitScotland. In the interim period the role of Head of Internal Audit was undertaken by another appropriately qualified auditor from Azets. Following the end of the secondment period, the secondee returned to the role of Head of Internal Audit.

54. It is our understanding that the Audit and Risk Committees for both VisitScotland and 2023 UCI Cycling World Championships Ltd were consulted and advised on the potential conflicts of interest and ethical implications of this secondment in terms of the independence and objectivity of the role of Head of Internal Audit for the VisitScotland Group. Following discussion and agreement of safeguards to ensure independence, this appointment was approved by both Audit and Risk Committees.

Climate change arrangements are appropriate

55. Our 2022/23 Annual Audit Plan highlighted that tackling climate change is one of the great global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

56. VisitScotland's Responsible Tourism strategy promotes collaboration in developing responsible practices across the Sector and has sustainability and tackling climate change at the heart of this policy. Climate change risks are included in the corporate risk register and business continuity plans. Positive actions and improvements are embedded in the Estates Strategy and wider business activities.

57. An annual internal sustainability report is presented to the Board and is published on the organisation's website. Reporting of performance against key milestones for carbon and waste is included in regular reports to VisitScotland Board. This shows that positive action has been taken in a number of areas and improvements have been achieved.

58. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

Cyber security arrangements are appropriate but the review of assurances from service organisations could be improved

59. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an

organisation. In 2022/23, we considered VisitScotland's arrangements for managing and mitigating cyber security risks for its main financial applications.

60. The Audit and Risk Committee receives regular updates on cyber security, at Board and Audit Committee meetings, either as specific agenda items or as part of wider corporate services updates. In addition, an annual Cyber Resilience report summarising activities throughout the year is presented to the Audit and Risk committee. The 2022/23 report is expected to be delivered to the Audit and Risk Committee in November 2023.

61. Cyber security has been identified in the corporate risk register, with a separate risk register for cyber security and systems implemented during 2022/23. VisitScotland also achieved re-certification for Cyber Essentials Plus accreditation in June 2023.

62. VisitScotland use Oracle and ADP for its ledger and payroll services respectively. The Oracle system is hosted on the cloud, whilst ADP is hosted by the supplier. All reports produced by service organisations are received, however, it is not formally documented that these are subject to review.

Recommendation 2

Management should ensure a proportionate risk-based review of both Oracle and ADP are completed on an annual basis.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

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.

Key performance indicators highlighted improvement in economic activity within the sector, however some areas of the economy are taking longer to recover.

VisitScotland has an appropriate Best Value framework in place

63. [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.

64. We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We may also, in conjunction with VisitScotland, agree to undertake local work in this area. We did not undertake any specific work in 2022/23 but concluded that appropriate arrangements were in place for securing best value based on the outcome of our other audit work.

65. 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 in 2023 and was reported to the Audit and Risk Committee in June 2023.

Key performance indicators highlighted improvement in economic activity within the sector, however some areas of the economy are taking longer to recover

66. VisitScotland's focus is on economic impact and therefore its key performance indicators are derived from its Economic Measurement Framework. VisitScotland monitors key performance indicators throughout the year with reporting to the Board on a regular basis.

67. In 2021/22 limited key performance indicator data was published by VisitScotland due to limitations caused by the impact of the Covid-19 pandemic. In 2022/23 this position has shown considerable improvement with performance being reported against all KPIs. However, it is noted that a return to pre-pandemic reporting conditions has not yet been possible in all KPIs due to the timing of data collation.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Internal Controls</p> <p>We noted two minor areas where there is scope for improvement to the operation of certain internal controls.</p> <p>Risk – there is a risk that internal controls do not operate effectively.</p>	<p>Management should review the controls around their key financial systems.</p> <p>Paragraph 36</p>	<p>Management will introduce formal periodic fixed asset verification reviews.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: 31 March 2024</p>
<p>2. Assurances over service organisations</p> <p>VisitScotland use Oracle and ADP for its ledger and payroll services respectively. The Oracle system is hosted on the cloud, whilst ADP is hosted by the supplier. All reports produced by service organisations are received, however, it is not formally documented that these are subject to review.</p> <p>Risk – VisitScotland’s data hosted by the service organisations may be at risk of loss, corruption or misuse.</p>	<p>Management should ensure a proportionate risk-based review of both Oracle and ADP are completed on an annual basis.</p> <p>Paragraph 62</p>	<p>A proportionate risk-based review of Oracle and ADP will be performed annually from 2023/24. This will include checking security certifications and that appropriate controls are maintained in place. This will be added to the corporate risk register as a mitigating action for the cyber security risk.</p> <p>Responsible officer: Mike Slack</p> <p>Agreed date: 31 March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 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>Risk – an efficient audit process cannot be delivered impacting on the delivery of the audited annual report and accounts.</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>Complete – VisitScotland met the agreed timetable for audit of the financial statements. A full set of accounts were received and supported by a comprehensive package of working papers.</p>
<p>b/f 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>Risk – budget forecasts may predict significantly inaccurate results.</p>	<p>Key assumptions and judgements used in budget forecasting should be subject to regular review given current economic uncertainty.</p>	<p>Complete - robust budgetary setting and monitoring procedures have been established and are subject to regular review and oversight by the Board.</p>
<p>b/f 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</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>Complete – significant progress has been made to establish a revised corporate plan and vision for VisitScotland. Embedded routines have been established to ensure that this work reflects new and emerging risks, priorities and policy objectives in within the wider policy framework.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>embedding the longer-term financial planning framework to support it.</p> <p>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.</p>		

VisitScotland

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