PUBLIC AUDIT COMMITTEE

Wednesday 4 February 2009

Session 3

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PUBLIC AUDIT COMMITTEE
3rd Meeting 2009, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*George Foulkes (Lothians) (Lab)
*Stuart McMillan (West of Scotland) (SNP)
*Nicol Stephen (Aberdeen South) (LD)
*Andrew Welsh (Angus) (SNP)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
James Kelly (Glasgow Rutherglen) (Lab)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)
Sandra White (Glasgow) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Angela Cullen (Audit Scotland)
Caroline Gardner (Audit Scotland)
Dick Gill (Audit Scotland)
Andra Laird (Audit Scotland)
Mark MacPherson (Audit Scotland)

CLERK TO THE COMMITTEE

Tracey Reilly

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Jason Nairn

LOCATION

Committee Room 4

Scottish Parliament

Public Audit Committee

Wednesday 4 February 2009

[THE CONVENER *opened the meeting at 10:03*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Good morning and welcome to the third meeting in 2009 of the Public Audit Committee. I ask everyone to ensure that mobile phones and any other electronic devices are switched off. We have received no apologies.

The first item on the agenda is to seek members' agreement to take in private items 6, 7 and 8. Are members agreed?

Members *indicated agreement*.

Section 23 Report

"Central government's use of consultancy services—How government works"

10:03

The Convener: Item 2 is consideration of the section 23 report "Central government's use of consultancy services—How government works". I invite Caroline Gardner to make some introductory remarks.

Caroline Gardner (Audit Scotland): This section 23 report, which was published on 15 January, considers the planning and management of and spending on consultants by the Scottish Government, non-departmental public bodies and central Government agencies.

I draw to the committee's attention a couple of key areas in the report. First, central Government spends £114 million a year on consultants. Although using consultants can be a good way of bringing in required specialist skills and expertise, it can also be expensive. As a result, it is important that it is properly planned and managed. We estimate that, with better planning and management, the Government could save up to £13 million a year out of the £114 million that it is currently spending.

Our £114 million estimate is the best available and is derived from a new database that the Government created as part of its public procurement reform programme. The database is very useful, but at the moment it provides only broad estimates of consultancy spending. Planned improvements should allow better monitoring of that expenditure in future.

Different people use different definitions of consultancy. We have included expenditure on consultancy services from management consultants brought in for specific projects, spending to fill temporary staff vacancies and spending on outsourcing routine services such as human resources support. A number of case studies in the report give examples of how consultants are used and help to highlight some of our key points, and we will be happy to answer questions about them.

Turning to improvements that we think can be made in planning, managing and using consultants and to where our estimate for potential savings comes from, I draw members' attention first to the fact that central Government does not have enough information to identify why consultants are used. There is always the option of using the Government's own staff, but if consultants are brought in, the reasons for doing so must be recorded. However, clearly, that is not always done. The new database will help to improve the situation, but at the moment we can be clear about what is happening only by examining individual case studies, which is what we have done. Secondly, we think that central Government needs to link its use of consultants much more clearly to its own priorities and to the financial and workforce plans that govern the way in which its work is carried out.

By taking those two approaches, not only would the Government be better placed to ensure that consultants' skills and knowledge were used where they offered best value for money, but it would be able to examine other ways of doing the work by recruiting or training staff or developing contracts for skills that it buys repeatedly from consultants. With better workforce planning, public bodies could make savings by reducing the number of times that they use consultants simply because their staff do not have sufficient time or skills. Exhibit 4 on page 12 of the main report, which shows the savings that can be made from that kind of improved planning, is based on a survey that we carried out of 103 consultancy projects. The survey found that central Government could have completed about 5 per cent of the projects without consultants and with little risk of affecting the outcome. Scaling that up across the whole of Government, we estimate that better planning could lead to annual savings of up to £10 million.

Moreover, we estimate that central Government can make savings of up to £3 million a year by changing the way it buys consultancy services and increasing its use of contracts for frequently bought skills. The potential savings from those areas are summed up in exhibits 11 and 12 on pages 19 and 20 of the main report. Such savings will not be easy to achieve in the short term, and careful planning will be required to ensure that such activity does not adversely affect the work that staff are already carrying out.

Page 7 summarises a number of recommendations that are aimed at the Scottish Government and public bodies. We also refer to the Scottish Government's revised guidance on the use of consultants, which was issued in December 2008. We welcome that revised guidance, which emphasises the need to use consultants effectively and sparingly and complements many of our recommendations.

I hope that those comments have helped to set out the report's main themes. The team and I will do our best to answer members' questions.

The Convener: I note your point about the difficulty in achieving some of the potential savings and that that will require careful management and a bit of time. However, the savings—the £10 million from better workforce planning and another £3 million from changes in buying consultancy services—represent a substantial amount of money and surely make the effort worth while.

In putting the report together, were you able to quantify how many consultants were ex-senior civil servants who had left the service over the past four or five years through early retirement or with enhanced financial packages?

Caroline Gardner: It is not possible to generate that level of detail about individuals at the moment. The new database is a step forward, but it refers only in broad terms to the type of consultancy work carried out and the firms involved.

The Convener: To your knowledge, does employing ex-senior civil servants as consultants happen?

Caroline Gardner: We are aware of anecdotal evidence of cases in which that might have happened, but we are not aware of the specific arrangements for the individuals or the financial impact. The matter relates to individual employment contracts.

Willie Coffey (Kilmarnock and Loudoun) (SNP): My attention is drawn to paragraph 25 of the short summary report, which is reflected in paragraph 70 in the main report, on post-project evaluation and consultants' contribution. It comes as a surprise to read that projects were evaluated

"less than half the time and a third of the projects were not evaluated at all."

Does that suggest that quality standards are not being adopted in the public sector? Post-project evaluation is very much a part of any quality standard worth its salt. Are quality standards not used in the public sector, or is it just that evaluations are not being carried out?

Caroline Gardner: There is real room for improvement. If people spend money on consultants, it is important to evaluate what they got for their expenditure.

I ask the team to answer the specific question on quality standards.

Dick Gill (Audit Scotland): We found that projects were rarely evaluated. Paragraph 25 says that they were evaluated

"less than half the time and a third of the projects were not evaluated at all."

I do not think that central Government takes a systematic approach to quality management. I am not aware of anything that would provide assurance on that.

Andra Laird (Audit Scotland): When we looked into this, we found that the guidance that the Scottish Government was working to suggested that evaluations were carried out. That has been strengthened in the new guidance.

Caroline Gardner: I draw Mr Coffey's attention to exhibit 13 on page 22 of the main report, which summarises good practice on managing consultants. The source of the information is the Scottish Government's procurement policy manual. The final bullet point is the requirement to

"report on the outcomes of the assignment, the quality of the consultant's work and the extent to which the envisaged benefits are likely to be achieved."

That is a way of talking about the need for evaluation, and it is clearly part of good practice. However, we found that such practice was not uniformly applied. There is certainly scope for improvement.

Willie Coffey: I am interested in knowing how many public sector organisations adopt formal methods and standards. Considering the outcome and trying to determine better practice for the future are fundamental parts of project management. Post-project evaluation is a big part of that. It seems that we might be missing something. Formal standards might not be in place throughout the public sector. I wonder whether there will be an opportunity to follow up on that.

The Convener: Willie Coffey is right to raise that point. Over the past few months, we have discovered that there can be a fairly casual approach. For example, problems in capital projects were identified only when people bumped into and spoke to each other. This report is telling us that work is being done but its effectiveness is not being evaluated.

It is possible that someone could leave the civil service early with an enhanced financial package, then be brought back in and asked to do work at fairly high rates, without the value of the work being scrutinised. It is just bizarre.

Willie Coffey: Project evaluation requires a consistent approach, so that a standard can develop across Scotland. That seems to be missing in a few of the key areas that we have examined over the past few months.

The Convener: There is probably not a lot that we can do with the report. I am prepared just to note it. However, I am interested in learning from the permanent secretary about the level of tracking that is carried out. We can consider that when we consider our approach to the report.

As there seem to be no further questions for Caroline Gardner, I thank the witnesses for their contributions.

Section 22 Report

"The 2007/08 audit of VisitScotland"

10:15

The Convener: The next item is the section 22 report "The 2007/08 audit of VisitScotland".

Mr Robert Black (Auditor General for Scotland): As the committee will know, VisitScotland is the national tourism organisation for Scotland. In 1997, VisitScotland, working with the former area tourist board network, began to develop a tourism consumer website. The aim was to have a website that provided an all-Scotland database of tourism products and services, and an online system for booking accommodation.

After some initial development work, VisitScotland sought advice in 2000 from the private finance initiative Treasury task force, now thankfully simplified to Partnerships UK. Drawing on its own work and the advice that it received from the task force, VisitScotland got the Scottish Executive's approval for additional funding to invest in a public-private partnership venture. VisitScotland prepared a business case to support investment in the joint venture and the Scottish Executive approved the joint venture in April 2002.

A company called eTourism Ltd was created to operate the website and provide other services for VisitScotland. The website was called VisitScotland.com. When the joint venture company was being created, VisitScotland invested £1.85 million to secure a 25 per cent interest, which was shared with the 13 area tourist boards that were still in existence. Other shareholders were Partnerships UK, with a 15 per cent interest, and a company called SchlumbergerSema, which took a 60 per cent interest.

The business case indicated that the joint venture could generate a post-tax profit of £1.5 million a year from the fifth year of its operation. However, eTourism's financial performance did not meet the expectations outlined in the business case. Income grew significantly in 2003 and 2004, but growth slowed from 2005 onwards. Expenditure also grew over those years, although it decreased from 2006. At 31 December 2007, the financial statements of eTourism Ltd reported cumulative losses of £12.4 million.

Because I am not responsible for the audit of eTourism Ltd, as it is a company, I am unable to provide detailed information about the reasons for the financial difficulties. However, from the information provided by VisitScotland's external auditor, it appears to us that the main reason was that income from the online booking service was significantly less than anticipated. We understand that there were high numbers of visitors to the website, but unfortunately that did not translate into bookings. I am not in a position to comment in detail on the reasons for that. However, VisitScotland has suggested that contributory factors were changes in the marketplace, particularly changes in the methods that people used to book accommodation, and the growing number of small businesses in the industry with their own websites. The Economy, Energy and Tourism Committee commented on issues relating to the VisitScotland.com website in its report in July last year.

As a result of eTourism's financial difficulties, VisitScotland decided to provide in its 2007-08 annual accounts for the non-recovery of its £1.85 million loan to eTourism Ltd and the related unpaid interest of £900,000. That resulted in VisitScotland reporting a deficit of £2.6 million against the financial target set by the Scottish Government for 2007-08. I therefore decided that I should make a section 22 report on the 2007-08 accounts of VisitScotland.

It might be helpful if I provide the committee with an update on the current position, as we understand it, of eTourism Ltd and VisitScotland's role. Shareholding arrangements have changed twice since eTourism Ltd was established: in 2005 and in December 2008. In 2005, Atos Origin IT Services, which had become the new parent company of SchlumbergerSema, gave up the majority of its shareholding and retained only 7 per cent of its shares in eTourism. Another company—Tiscover UK—acquired 35 per cent of eTourism's shares. The remaining shares were split between VisitScotland, which increased its shareholding to 36 per cent, and Partnerships UK, which increased its shareholding to 22 per cent. I emphasise that VisitScotland did not invest any more money to acquire the increased shareholding.

In December 2008, VisitScotland decided to acquire all the shares in eTourism, which brought eTourism completely into public control. VisitScotland paid £1.25 million to acquire the complete shareholding. As part of that arrangement, the other partners agreed to write off loans and interest that were owed to them, which were valued at almost £2.9 million. VisitScotland is obtaining financial advice on how the acquisition's value should be treated in its accounts.

VisitScotland is considering alternative business models to secure the future of eTourism and its website operations. I have asked the auditors to continue to monitor developments, including the financial implications of decisions that are made about the longer-term sustainability of eTourism.

As ever, I am happy to answer questions, with the support of the Audit Scotland team.

The Convener: If we leave eTourism aside, are you satisfied with VisitScotland's performance in 2007-08?

Mr Black: We have done nothing on VisitScotland other than receive the final report of its auditors and its signed accounts. They would be satisfactory if not for the need to take into the accounts the losses that have been incurred.

Murdo Fraser (Mid Scotland and Fife) (Con): All members in whose constituencies the tourism industry is well represented will be familiar with many of the issues with VisitScotland.com, but not many of us realised the scale of the problem. Delivering cumulative losses of £12.4 million is an unmitigated disaster. I appreciate that you cannot comment on the reasons for that—you can only speculate—but I wonder what the impact on the remainder of VisitScotland's operations will be of the deficit of £2.6 million that it reports in the accounts for the year gone by. Surely that loss will have a substantial knock-on effect on the agency's other activities.

Mr Black: At this stage, it is not possible to give an assurance about the outcome. As I said, VisitScotland held at the outset a 25 per cent share in eTourism, which increased to 36 per cent in 2005. In December 2008, VisitScotland acquired all the other shares and therefore acquired all the liabilities.

It is for VisitScotland to consider—as it is doing—how the operation's relative value should be reflected in its financial statements. As I said, it is considering alternative business models. The issue is important to VisitScotland. Until that process is concluded, my colleagues and I cannot help the committee terribly much, unfortunately.

Murdo Fraser: How VisitScotland's on-going operation will be affected by this financial hit is of great concern to me. We should pursue that.

Stuart McMillan (West of Scotland) (SNP): I have a couple of questions. The first is for clarification. I am not clear about the phrase

"VisitScotland management took the decision to reflect provisions for non-recovery",

which is in paragraph 10 of the report. What exactly does that mean?

Mr Black: It means that VisitScotland made a provision in its accounts for the fact that a loss might occur, which would hit the organisation's balance sheet.

Stuart McMillan: My second question is about the reference to "business cases" in the report—the committee has discussed a business case in relation to another matter. Did Audit Scotland have access to the business case and to information that dated back to when the enterprise was established in 2001?

Mr Black: The section 22 report is focused on the accounts. The work that was done on my behalf was not as comprehensive and detailed in this case as in the case of the First ScotRail franchise, for example, where a specific piece of work was undertaken. The external auditor of VisitScotland has examined the matter for me. That involved looking at the original business case and the history of events after that. The general conclusion is that VisitScotland went through a process that, at the time, seemed entirely reasonable when putting together the business case and the subsequent business plan. Its confidence in what it was doing was probably confirmed by the fact that it was able to achieve a partnership venture, involving Partnerships UK and the private sector.

Stuart McMillan: I will leave the matter there for the moment.

Andrew Welsh (Angus) (SNP): In light of the previous item on our agenda, was a consultancy service involved in setting up this aspect of the organisation?

Mr Black: One of the team may be able to answer your question.

Mark MacPherson (Audit Scotland): May I come back to you on the matter in a minute?

Andrew Welsh: Okay.

From start to finish, none of this looks very clever. The business plan got it wrong, and VisitScotland failed to react either to losses or to external changes in the market. You say that income from the service was less than anticipated. How can an estimated profit of £1.5 million turn into a £1.3 million loss in 2007, with £12.4 million of cumulative losses plus £6.3 million of liabilities and various other debts? Surely the business plan got it wrong. Why was VisitScotland unable to respond to market and other changes?

Mr Black: I will attempt to be as helpful to the committee as I can, but I must qualify my remarks by reminding members that we have not carried out a full, thorough performance review of the project.

The general impression that comes through clearly from the limited work that the auditor and the Audit Scotland team have done is that the original business case was reasonably put together at the time that it was created. As I mentioned in my opening remarks, income grew significantly in 2003 and 2004 but then slowed. The problem was that people were reluctant to use the site to make bookings. Around 2005, the rate at which visits to the website were converted into accommodation bookings dropped by 45 per cent. That development has caused VisitScotland considerable problems.

From reading the documentation that is available to me, I have the impression that the management of VisitScotland engaged closely with the process throughout. It did not stand back from what was happening and was in no sense negligent. We must recognise that risks are associated with the development of new projects and products; occasionally I have made that point to managers and others in the public sector. When I bring reports such as this to the committee, I am committed to trying to present a balanced view. We must understand something of the context and recognise that the way in which the internet is used today—not only by companies and public bodies but by all of us as individuals—was not really foreseen in the 1990s. The custom and practice of using the internet has developed significantly.

Measured by the number of hits on its website, VisitScotland's performance has been quite good. I will share one fact with the committee. In September 2005, there was more traffic on the VisitScotland.com website than on the equivalent English and Irish sites—the figure was four times greater than that for the Irish site. That aspect of the service is working. Where it has not worked is in the conversion of visits into bookings. That has left VisitScotland short of income.

Andrew Welsh: Surely the service is about converting visits into bookings.

Mr Black: That is a significant element.

Andrew Welsh: I am concerned about the massive and on-going haemorrhaging of money; it is clear that VisitScotland got things entirely wrong. In spite of expert advice, eTourism Ltd looks like an on-going financial disaster area.

I am also concerned about the organisation's inability to adapt to changing needs and markets. The website might be getting a lot of hits, but surely it is the end product that counts. I note that VisitScotland is "considering alternative business models". What exactly does that mean?

10:30

Mr Black: I think that it means what I said: VisitScotland is currently looking at options for the future and only VisitScotland is in a position to give you the current picture. The auditor will monitor the situation during the current financial year.

The Convener: Before I bring anyone else in, do we have the information that Andrew Welsh asked for?

Angela Cullen (Audit Scotland): I have a comment to add to the Auditor General's statement. I absolutely agree that the board and management of VisitScotland have been on top of the issue throughout. It is worth emphasising that VisitScotland had a minority interest in the organisation that runs VisitScotland.com, so it had limited access to do something about the issue. VisitScotland was a minority shareholder in the early days.

Mark MacPherson: The shareholding was initially 25 per cent; then, in 2005, it was 36 per cent. Until December 2008, VisitScotland did not have a controlling interest in the operation of the organisation. Despite the fact that VisitScotland was aware of the concerns, was considering them and was trying to make its views known, it did not have full control over what was done in response to those concerns.

Andrew Welsh: So it was on board a runaway financial train.

The Convener: There are slightly different issues for us to reflect on. However, from what has been said, as far as Audit Scotland can see, those associated with VisitScotland acted properly and judiciously. We have other concerns and we will have to think about how we comment on them.

Are you in a position to answer Andrew Welsh's original question about consultants?

Mark MacPherson: I can see no reference to consultants being involved, but I cannot assure you that none was involved. VisitScotland will have the answer to that.

Willie Coffey: I want to follow up the point about online bookings. Secure transactions have been available for quite some time, and hotels and guest houses use them frequently. Therefore, I am surprised that, in the original model, so much reliance was placed on a revenue stream from VisitScotland.com's secure transactions site when that service was developing right across the internet market.

Perhaps I am more surprised that, at some stage, VisitScotland decided to acquire all the shares in eTourism Ltd, thereby transferring a private debt of £12.4 million into a public liability. I am concerned about that. That is effectively what happened; the £12.4 million debt is now a public debt. Am I wrong?

Mr Black: By acquiring the company, VisitScotland managed to ensure that it continued to operate in the short term. The former partners in the company wrote off loans and other money that were due to them as part of the acquisition. Therefore, I imagine that VisitScotland considered that it was important to keep the company in existence while it looked at alternative business models.

Given that aspects of what the company did have been successful, such as getting a lot of people to visit the website to explore information about tourism in Scotland, it would be difficult for us to say more than that at this stage.

Willie Coffey: Where does the £12.4 million debt liability lie?

Mr Black: It would lie with VisitScotland, but it might not be crystallised. It depends on the business model and how it goes forward.

Nicol Stephen (Aberdeen South) (LD): It is fair to say that the tourism industry has been critical of the website for some time now. The VisitScotland response tended to focus on the number of hits and the number of people who use the site. However, it has become clear that the industry was right all along, and that the conversion rate—the number of people who book online—has fallen significantly behind the predictions in the business plan. That has become a significant problem for the company—a major loss has accumulated.

There are, no doubt, issues of the type that Robert Black has identified. It would be bad news if VisitScotland no longer had a website or a web presence. I think that everyone here today would like the company to have a good-quality web presence and to see the issues that the industry has identified tackled and turned around. However, I have seen no evidence that that is happening. I am interested in hearing about any timescale for tackling the situation, and about how that will be done in a way that is appropriate and which will include consultation and the proper involvement of the industry.

I have some questions about the details of the deal that was done in December 2008 in relation to the acquisition. In what ways will the industry now be involved? Much has been said by VisitScotland to rebut criticisms from the tourism industry, but it now seems that many of those criticisms were well founded.

Mr Black: With regard to the criticisms, in the report that it published in July of last year, the Economy, Energy and Tourism Committee offered some challenging comments about how the situation was developing. The committee said:

> "We note the recent reforms to the VisitScotland.com website but believe that the current scale of its achievements, especially in regard to online booking provision, is far too modest. We believe the current business model for VisitScotland.com has failed and should be revisited."

That is consistent with the sentiment that you expressed.

I personally cannot answer your question about the extent to which the industry is currently involved with VisitScotland. Perhaps my team can help from their current knowledge of the matter.

Angela Cullen: The Auditor General has asked the auditors to continue to monitor the situation and report back to us on developments, including the development of possible new business models, timescales and any financial implications.

Nicol Stephen: I am sure that the situation will remain an issue of concern to this committee and, as Robert Black identified, to the Economy, Energy and Tourism Committee.

My second group of questions relates to the deal, and the amount of money—if any—that was paid to acquire the controlling interest and all the shares. You mentioned write-offs and restructuring of debt. Was that done at fair value and with appropriate advice? We are talking about a company that was, based on the comments that you have made, technically insolvent. Is that correct?

Mr Black: Yes, that is correct. I am not sure that I can add much more to what I said earlier. Perhaps the team can help.

Angela Cullen: VisitScotland paid £1.25 million to take over the rest of the company in December 2008. It acquired all the shares, and the other companies agreed to write off the debt that was owed at that time.

Nicol Stephen: Do we know how much that was?

Angela Cullen: Yes—it was £2.9 million.

Mark MacPherson: The Auditor General explained in his opening remarks that it was £2.9 million-worth of debt.

Nicol Stephen: Thank you—I did not pick that up. So there was a write-off of £2.9 million, but there were still net liabilities. Those amounted to £6.3 million in December 2007, and they would have grown by December 2008.

Mark MacPherson: The Auditor General said that VisitScotland is seeking financial advice on the value of the acquisition. Members made a couple of points about the online booking system. Of course, that is not the only service that is provided through the site. A lot of marketing information is gathered, such as where people are visiting from and what they are looking at. There is some value to be attached to that. Financial advice needs to be taken to establish the exact value of the acquisition and how it should be reflected in the accounts. The value might be higher or lower than the previous figure, depending on how the financial advice goes.

Nicol Stephen: So, more work needs to be done in that area. I presume that VisitScotland took professional advice on the acquisition. Are you aware whether it did that?

Mark MacPherson: There is evidence that VisitScotland took advice, involved lawyers—I do not know whether I should say “consultants”—in the procedure and performed due diligence tests through its internal audit team.

Nicol Stephen: Have you scrutinised that yet, or is it too early to have done any audit work on it?

Mark MacPherson: We have not looked at it in detail. Our focus was on the preceding period.

Stuart McMillan: SchlumbergerSema is a massive organisation. Mr Black mentioned the comparison with the English and Irish equivalent sites. Does SchlumbergerSema have any dealings with them?

Mr Black: Unfortunately, we would not know that, because our audit relates only to VisitScotland, in Scotland.

Stuart McMillan: Do you know whether SchlumbergerSema has any dealings with other Government—

Mr Black: I am sorry, but we would not have that information either.

George Foulkes (Lothians) (Lab): How does all this relate to homecoming?

Mr Black: That would be a policy matter for the Scottish Government to help you with.

George Foulkes: Are you looking at expenditure on homecoming?

Mr Black: Not specifically.

George Foulkes: Would it not be wise to do that, in light of what we are discussing?

Mr Black: If it is a matter of interest to the committee, we can certainly consider how, in the course of the audit of the current financial year and into the future, we might make an appropriate reference to that project.

George Foulkes: It might be worth looking at that. There have been a number of public comments about it. Surely that work must be done in parallel with, or alongside, VisitScotland’s work.

Mr Black: From what I understand of it, VisitScotland’s work to attract people to Scotland is entirely consistent with the policy objectives of the homecoming project.

George Foulkes: But are the two things working together? Are the budgets separate?

Mr Black: I am sorry, but we have not done an audit in that area. I wish that I could help you, but we do not have that information.

George Foulkes: Could you find that information? Would you need to carry out a particular audit? How would you set about that? Who would ask you to do it? Would we ask you?

Mr Black: I would ask the auditor in charge of the audit of central Government to have regard to it when they were preparing their audit work and making their final report.

George Foulkes: That would be helpful. We want to avoid duplication. The work on homecoming might be consistent with the work of VisitScotland in policy terms, but it would be useful to know whether it was duplicating or conflicting with things that were already being done.

The Convener: The issue that we are discussing is the 2007-08 audit of VisitScotland. Is the website still working?

Mr Black: Yes.

The Convener: Anyone who is interested in coming back to Scotland can make bookings through the website. Did any information obtained during the audit indicate whether the conversion rate has improved?

Mr Black: All we have is a general piece of information that the contact centre and the tourist information centres are performing as expected in 2008, but the conversion figures for the website continue to be disappointing.

10:45

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): What timescales are we looking at for the additional work that is being done? I realise that you might not be able to give us any further information on that.

I hope that we do not get too bogged down. If the VisitScotland website is our main website for selling our product, it might be the case that we have got just part of it wrong. People might go to other sites to make the final booking because, for example, different discounts are available—all of us have probably done that when we have tried to get the best-value booking. As well as information on the timescale for the work on alternative business models, I would like to know whether the figures that we are discussing represent reasonable expenditure for the marketing of the VisitScotland brand.

Mr Black: I am sorry, but I cannot help much with those entirely reasonable questions; they would be best addressed to VisitScotland.

The Convener: I understand members' interest. When we consider our approach to the report later, we will have to reflect on what work has been carried out by other parliamentary committees. It is clear that some future policy practice issues need to be addressed. We are trying to examine some of the problems from a historical perspective, but I suspect that there will be a continuing interest in the failure of VisitScotland's electronic system to convert inquiries into bookings. If this committee does not do such work, others might well wish to.

Murdo Fraser: There is a point that I wanted to check. What is the annual turnover of VisitScotland?

Mr Black: I look to my team to give you a definitive answer.

Murdo Fraser: I am trying to get at the percentage of the agency's total turnover that the £2.6 million deficit represents.

Mark MacPherson: VisitScotland's overall outturn for the year was £52.5 million.

Murdo Fraser: So, off the top of my head, the deficit amounts to 5 per cent of turnover. There you go—I can still do mental arithmetic.

The Convener: As there are no further questions, I thank everyone for their contributions. We will consider the matter again later on the agenda.

Audit Scotland (Corporate Priorities 2009 to 2012)

10:47

The Convener: We move on to item 4, which is consideration of Audit Scotland's corporate priorities. I invite the Auditor General to make some introductory remarks.

Mr Black: Today we publish Audit Scotland's corporate plan for the next three years—from 2009 to 2012. I bring it to the committee for your interest, and it will also be presented to the Scottish Commission for Public Audit, given its role in examining Audit Scotland's proposals for the use of resources and expenditure.

The plan has been prepared with the involvement of the Accounts Commission and after extensive consultation with public bodies, stakeholders and our own staff. We put a great emphasis on the consultation because we recognised that there had been many changes in the public sector landscape in the years since Audit Scotland was created. Over that time, our work has grown significantly in its complexity and range, and we need to ensure that we can evolve and adapt to those changes.

The plan is informed by the many responses that we received to our consultation. I am pleased to say that more than 140 of our stakeholders responded. We found it particularly useful to have the support of Capability Scotland in organising an event to ensure that our work takes account, as far as it can, of the needs and requirements of diverse groups, including people with disabilities. There was a good response from our colleagues in Audit Scotland, and we are extremely grateful to everyone who contributed their ideas to the development of the plan.

The consultation was interesting because there was a remarkable degree of consensus on the most important issues that the public sector and we the auditors face over the next five years. Those issues are the increasing pressure on public spending—that will come as no surprise to any of us; the increasing emphasis on more efficient working; the continuing need for high standards of corporate governance, financial management and control; and the need to deliver more efficient and effective scrutiny and accountability.

The plan confirms that the work that Audit Scotland does for me and for the Accounts Commission must continue to support both accountability and improvement. It also commits Audit Scotland to five priorities over the next three years. The first priority is to deliver more streamlined audit. In particular, we will work in partnership with other scrutiny bodies and improvement agencies to avoid duplication of effort and make our work as effective as possible. The second priority recognises that Audit Scotland needs to strike the right balance between holding public bodies to account on behalf of the Public Audit Committee and the Parliament, and helping them to improve using our resources and skills and the evidence that we gather. The clear message from our stakeholders is that they would like Audit Scotland to do more to support the improvement of public services.

Thirdly, Audit Scotland aims to increase the impact of its work. We have developed an impact framework, which is outlined in the corporate plan, to collect evidence on impact. Fourthly, Audit Scotland aspires to be recognised by stakeholders, partners and public bodies as a centre of excellence for public audit—the plan sets out in some detail nine supporting activities that will help us to achieve that. Finally, we are committed to keeping the cost of our work to a minimum. We will aim to deliver year-on-year efficiency savings, and we will continue to improve the transparency of our costs and governance arrangements. Those are the five priorities that came out of the consultation that we undertook.

We have also set out in the plan the evidence that we intend to use to measure and report on Audit Scotland's own performance, which will be reported in our annual reports from 2010 onwards. The plan also provides a context for the programme of performance audits that Audit Scotland will carry out from 2009 to 2012.

In parallel with the plan, I have prepared, with the Accounts Commission, a joint statement of principles of public audit in Scotland, which is a high-level framework within which all public audit will take place. It is intended to guide Audit Scotland and all the auditors in their work. I would like to introduce that statement briefly at a future meeting of the Public Audit Committee because it is a high-level policy issue that the committee might want to be aware of and comment on.

Willie Coffey: I just want to emphasise the point that I made previously about post-project evaluation and quality standards in the public sector in Scotland. Will you include work on that in your investigations so that at some point we will be able to see the pattern of public bodies adopting the standards?

Mr Black: Absolutely. The impact framework that Audit Scotland is developing will give a lot of attention to the effect that our studies have and to whether people take on board the recommendations in our work.

Willie Coffey: Good.

George Foulkes: I had a glance through the report to see whether I could find the word "consultant" anywhere, but I could not. Do you use consultants?

Mr Black: Yes.

George Foulkes: Do you adhere to all the principles in the report on the use of consultants in the public sector?

Mr Black: When we do a piece of work about management and governance elsewhere in the public sector, we now do our own internal piece of work in parallel with that. It is rather like an internal best-value review to assess whether we measure up. The internal review that we undertook found that we measure up in most respects but that there is scope for improvement—as there always is.

As I am sure the committee will understand, our work ranges widely across the public sector—members have seen the diversity and complexity of some of the work that we do. We cannot be expected to have in-house expertise on all those areas, so we use consultants. However, it is important that Audit Scotland can provide me with the assurance that we manage contracts with consultants well and provide an assurance to the Parliament, through our annual reporting and so on, that we work appropriately. Would Caroline Gardner like to add anything?

Caroline Gardner: As the Auditor General said, as is our usual practice, we asked the study team that carried out the consultants report to review our internal practice. The report to the management team found that we comply with most good practice, but there were two areas in which it was considered that we could do better. The first was in consistently recording the reasons for using consultants. We always review it, but it is not always possible for an independent observer to be absolutely clear whether specialist expertise was brought in because a new piece of work was introduced at the request of the committee or someone else.

The second area in which we can do better is in recording the reasons for the procurement method that we use. Some of our consultancy contracts are small—when there are good reasons for not going to full and open competition—but, again, we do not record those reasons in every case. We have now agreed an action plan that will ensure that our recording is consistent. Barbara Hurst and David Pia, her colleague who deals with local government, are responsible for ensuring that that happens in future.

George Foulkes: That is helpful. I can see that you recognise that, if you are making recommendations to other organisations, it is important that you, too, should adhere to the principles.

Andrew Welsh: Audit Scotland has come a long way since 1999. You have been a positive influence on public bodies and all the partners that you have worked with in seeking improvement, as in local government through the Accounts Commission. As you should, you have set the highest standards for your own organisation. The problem is that no one notices that you are doing your work because things are done when they should be done, how they should be done and to maximum efficiency. It is a long way since 1999, but Audit Scotland is one organisation of which we can all be proud.

George Foulkes: Almost 10 years.

Andrew Welsh: Yes.

The Convener: If there are no other comments, I thank the Auditor General for his contribution.

Audit Scotland (Performance Audits 2009-2010)

10:57

The Convener: I invite Caroline Gardner to speak to this item.

Caroline Gardner: The programme of performance audits sits alongside the corporate plan, and is the next level down in detail, if you like, of the work that we will be doing over the next couple of years. The programme forms the basis of our performance audit work through to the end of 2010. Again, we consulted widely on a long list of studies from a range of sources that were identified by our staff. The series of performance audits that are outlined in the programme take account of views that were expressed by MSPs, Scottish Government officials, the Convention of Scottish Local Authorities, the Society of Local Authority Chief Executives and Senior Managers and a range of other organisations and people with whom we work.

The studies that are included in the programme cover areas in which the Auditor General and the Accounts Commission feel examination is needed. The programme reflects current policy developments and focuses on areas of high public expenditure, areas in which major change is planned or under way and, in particular, on areas in which we think we can have the most impact for the people throughout Scotland who rely on and pay for public services.

The studies cover a range of issues, such as emergency care, efficient justice and physical recreation services in local government. Importantly, a number of the projects cut across more than one part of the Scottish public sector, which is one of the things that Audit Scotland is uniquely well placed to work on. Those include projects on delivering efficiencies, community planning, and community health partnerships. The programme takes account of work that is planned or being carried out by our partner scrutiny bodies. It is worth stressing that we routinely look for opportunities to work with them on areas of common interest, and to share information.

We know that we need to demonstrate the impact that we are having on public services. As the Auditor General said, we have identified four indicators of impact. We expect each of the studies to have an impact in at least one of those areas. They focus on improving effectiveness and quality; providing assurance or improving arrangements for accountability; improving economy and efficiency, which feels even more important now than it did when we started consulting back in the summer; and improving planning and management.

We are keen to demonstrate that public audit is making a real difference to public services, and the Accounts Commission and the Auditor General are committed to ensuring that all our work has the maximum impact, both in terms of helping public bodies to improve and in holding them to account. To do that, we aim to demonstrate our impact through efficiency savings and improved quality, and we hope that the programme has got the balance right between those two focuses.

As ever, we are happy to answer any questions from the committee either about the overall approach or about specific audits that we have included in the programme this time.

11:00

The Convener: In your work on the report on the role of boards, will you be examining whether the current landscape is efficient and effective or whether better results could be achieved by having boards come together? The same question could apply to some of the work that the Accounts Commission is doing in respect of local government. There has been some discussion recently about whether the current management structures are the most effective and efficient way of delivering services in Scotland.

Mr Black: I will offer a general comment, on which Caroline Gardner will expand.

The work on boards will be of greater significance than we envisaged it would be, in view of some of the issues and concerns that have arisen, not least in this committee. It will provide a reliable and comprehensive picture of the range of board-type structures that we have in Scotland and how they are organised, operated and governed. We would not go so far as to recommend any changes—that is a matter of policy for Government—but I am confident that the Audit Scotland report will provide a comprehensive description of the range of arrangements that currently exists.

Caroline Gardner: It is more likely that the study on community planning will consider how well bodies are working together at local level so that we can identify the key areas of priority for them and, moving on from that, what each can contribute to making improvements. It is unlikely that we will go so far as to make recommendations for structural change, but we will certainly look for opportunities to get more out of joint working.

That theme is also coming through strongly in the development work that we are doing for the next phase of the work on best value, in which we are deliberately strengthening the focus on partnership working to ensure that people are going past process in order that they can really make a difference in what they achieve.

The Convener: Notwithstanding what you said about not making recommendations about structural change, will you identify examples of structures in local government and boards that are inefficient and weak and which inhibit effective delivery of services?

Caroline Gardner: If we find clear examples of that, we will identify them. However, so far our focus on community planning and best value has tended to demonstrate that there are not many barriers, where people are working well together and are prepared actively to challenge what each contributes to a shared goal. Obviously, there is a wider policy question about what the right landscape is for public bodies across the piece, so our work might be a helpful contribution to that. However, it would be a step too far for us to make recommendations.

The Convener: I look forward to seeing the results of your work. Thank you for attending.

That concludes the public part of our agenda.

11:03

Meeting continued in private until 12:23.

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