

The Hon. Dr SARAH KAINE: Can I just go back a little way? Mr Goodwin, you were talking about contract extensions and variations and you particularly referred to the design and implementation report of the Transport Asset Holding Entity. Going back to contract extensions and variations, I note that, in the Auditor-General's report into the Transport Asset Holding Entity, Treasury responded to your recommendations that they were going to engage a more thorough process to manage contract variations and extensions. My question is: What was the process for managing extensions and variations prior to this new commitment to develop something?

IAN GOODWIN: The New South Wales procurement guidelines provide guidance around that but I might invite Claudia Migotto, Assistant Auditor-General and Head of Performance Audit, to touch on that a bit.

CLAUDIA MIGOTTO: I can't really speak to what changes Treasury might have implemented in response, but the Procurement Board guidelines provide that there does need to be a justification for a variation, and that agencies have a responsibility to anticipate any additional costs that might arise at the outset of the engagement so that they can be incorporated, or that a variation may be able to be anticipated.

The Hon. Dr SARAH KAINE: But did you find that that was happening?

CLAUDIA MIGOTTO: For the TAHE engagements?

The Hon. Dr SARAH KAINE: Yes.

CLAUDIA MIGOTTO: I don't think we can—yes, would you like to—

IAN GOODWIN: We certainly found that there were certain contracts where—there was a contract initially—Treasury engaged a big four firm for advice around the application of accounting standards, the changes in accounting standards—that was in the order of \$360,000. Upon completion, it was in the order of \$2.4 million to \$2.5 million.

MARGARET CRAWFORD: We could take it on notice.

IAN GOODWIN: We could clarify the exact number. It's in the report, but it's in that order of contract variation.

RESPONSE:

In 2020 NSW Treasury engaged KPMG to provide advice on how changes to accounting standards would impact on TAHE and the government accounts. This is an example of an area of an area where NSW Treasury would be expected to have more knowledge than a private sector consultant. The contract had three variations worth a total of \$2,140,000 and was ultimately valued at \$2,500,000. The initial contract value was \$360,000 (with an upper limit of \$600,000). This contract is highlighted on page 40 of the performance audit titled 'Design and Implementation of the Transport Asset Holding Entity' tabled on 24 January 2023. An extract of the relevant section is below:

"In 2020, Treasury engaged KPMG to perform tasks connected with the delivery and fiscal management strategy of TAHE. Treasury approved the engagement on 17 April 2020, although the contract start date was reported to be two months earlier on 3 February 2020. The initial engagement had an upper limit of \$600,000 and an end date of 30 June 2020. Despite the value of the engagement Treasury did not use a formal tender for this engagement. However, the NSW Procurement Framework permits direct negotiation as an alternative to a tender in situations where the engaged party is considered to be in a unique position to offer services that cannot be offered by others. Nonetheless, the engagement must provide value for money for the state and the audit team was advised that Treasury selected KPMG as a single source to perform services as KPMG had previously advised on technical matters, and continuity of service represented value for money. Treasury made three variations to the contract with KPMG with a combined value of \$2.14 million and a final due date of 31 December 2021. The final cost to Treasury was \$2.5 million, which was \$1.9 million more than originally planned. This engagement took 17 months longer to complete than originally intended."

Further examples of variations made to contracts with consulting firms are provided within Exhibit 11 of the report (page 40-41).