

# **Inquiry into the NSW Government's Use and Management of Consulting Services**

**NSW TREASURY**

**QUESTIONS ON NOTICE**

**Response due: Wednesday, 6 September 2023**

## **QUESTION 1 (TRANSCRIPT PAGE 18)**

**The CHAIR:** In your answers to questions on notice, you gave us the information that expenditure for tax services represents approximately 1.2 per cent of the Government's overall business advisory services spend with PwC. Are you able to tell us what per cent — because 1.2 per cent of business advisory services is quite small — it represents in terms of overall spend on PwC services by the Government?

**SONYA CAMPBELL:** We would have that detail. I may have it to hand, but I will take that on notice for now, if I can.

## **ANSWER**

Supplier sourced data from PwC as part of the Performance and Management Services Scheme shows the following expenditure that relates to engagement type 7 – “Taxation” as compared to the other “business advisory services” engagement types for the period July 2018 to April 2023:

- (a) \$1.6M - engagement type 7 – “Taxation”.
- (b) \$138.6M - remaining “business advisory services” engagement types.
- (c) Thus, total “business advisory services” engagements including “taxation” is \$140.2M.
- (d) “Taxation” represents 1.2% of all “business advisory services” engagements under this scheme.

## QUESTION 2 (TRANSCRIPT PAGE 19/20)

**The CHAIR:** We've had cheating on ethics tests, we've had KPMG actually acknowledging that it made mistakes in the context of the Senate inquiries, we've had the report from the Auditor-General and we've had the inquiry from this Committee. What does it take to get taken off the pre-qualification list? Why is KPMG still sitting there? Does there need to be a media scandal before we actually take action to restrict the use of these consultants?

**SONYA CAMPBELL:** KPMG, like others, is a very large organisation with many employees. I spoke previously about the way that issues are notified and are escalated in terms of performance being reviewed. There are a range of options to procuring agencies — from terminating agreements for poor performances, breaches of confidentiality or conflicts of interest through to escalating that up to the board. Based on the information that I have, there hasn't been anything notified of significance enough for the board that would warrant a decision to remove KPMG as an entity from pre-qualification.

**The CHAIR:** Is that the problem then? Basically, we have a system where somebody at an agency or department level has to say, "I wasn't happy with this work", or, "Something has happened with this particular piece of work", and then escalate that up to the Procurement Board, as opposed to the Procurement Board having a look at the organisations on the pre-qualification list and saying, "Hang on a minute, there are all of these questions over these organisations. This is a red flag. We need to take them off the pre-qualification list and take a look at every single engagement." Shouldn't that be what we are doing?

**SONYA CAMPBELL:** It's something that we can consider, Ms Boyd, but with over 3½ thousand diverse suppliers on the pre-qualification scheme, again, that is a very large task for a team that is administering those schemes.

**The CHAIR:** I absolutely appreciate that, but, with respect, these are the big four. You've had plenty of notice — everybody in this room has had plenty of notice — of the KPMG evidence, and of PwC, Deloitte and all the rest of them. So it's not like anyone has had to go and do some research to monitor it. We're not talking about the 3½ thousand; we're talking about these particular entities that you do have notice of because they are in the media. Whose responsibility is it to actually say, "These organisations are clearly not fit to be on the pre-qualification list. We may still entertain some work with them, but in terms of getting our big tick of approval, we are going to take that off for now"?

**SONYA CAMPBELL:** I think it's a question that we can take away, Ms Boyd, in terms of how we do routinely review and look at that pre-qualification list. I would also expect that, as part of routine procurements, individuals — which, essentially, these professional services firms are — are being rigorously assessed in terms of past experience and capability when they are being selected to undertake government work.

## ANSWER

In relation to the Performance and Management Services Scheme (which is managed by NSW Procurement), as part of ongoing market surveillance NSW Procurement monitors media and other reports in relation to professional services suppliers.

In addition, the Performance and Management Services Scheme contains provisions for agencies to escalate instances of unsatisfactory performance which cannot be resolved directly with a supplier to NSW Procurement for review and further investigation.

In line with the principle of procedural fairness, where a matter of concern arises, NSW Procurement directly contacts the relevant supplier and seeks additional information.

Based on the available evidence, NSW Procurement assesses whether a breach of the scheme conditions<sup>1</sup> has occurred and if so which measure(s) outlined in the scheme conditions may be warranted, including a downgrading of qualification status, temporary suspension, or revoking membership of the scheme. In such cases, a recommendation is prepared for the relevant delegate within NSW Treasury (as the scheme owner) and may be brought to the attention of the Board (subject to government-wide impacts). The impacted supplier is notified and, as per the scheme rules, given an opportunity to provide reasons as to why the sanction should not occur.

As previously advised to the committee, PwC has been temporarily suspended from providing “Taxation” services under the Performance and Management Services scheme. Other than this, based on the available fact-based evidence, we are not aware of breaches that would warrant removal or suspension of the Big 4 professional services firms.

### QUESTION 3 (TRANSCRIPT PAGE 20)

**The Hon. Dr SARAH KAINE:** Getting data is quite difficult. There are 3½ thousand organisations or entities on this list. When we say that KPMG is pre-qualified, is that every bit of KPMG, or is it KPMG Pty Ltd, KPMG Consultancy Services, KPMG XYZ? How does that work?

**SONYA CAMPBELL:** Yes, it's a good question. There are different entities within these big firms with different ABNs attached, and they would be assessed for pre-qualification against different category services, which becomes a capability assessment to be able to perform those services. So they wouldn't be across every category, but they would be across ones where they have applied for pre-qualification.

**The Hon. Dr SARAH KAINE:** Is there no crossover in any of those entities – in terms of do they offer some of the same kinds of work, or do they all offer discrete services?

**SONYA CAMPBELL:** There are the larger entities. All of them have different examples of smaller, more boutique entities. Some have some in the Aboriginal consulting space or in the ICT space where they may be pre-qualified separately, but all of the big four are pre-qualified under the business advisory services scheme, which is the scheme where we have the reporting direct from suppliers to NSW Procurement centrally.

**The Hon. Dr SARAH KAINE:** Would we be able to get a list of how many entities that fall under each of the big four are separately listed on the pre-qualification list?

**SONYA CAMPBELL:** Yes, I think we could provide that information to you.

### ANSWER

An entity seeking prequalification on a scheme is required to apply under a specific Australian Business Number (ABN). Where a large professional services firm has multiple business entities servicing different service categories under a scheme, each relevant entity (ABN) is required to apply for prequalification for applicable scheme categories.

By way of example, the “Big 4” have multiple ABNs pre-qualified on the following whole-of-government schemes (Performance and Management Services Scheme (SCM0005), ICT Services Scheme (SCM0020), Consultants in Construction up to \$9 Million Scheme (SCM1191)).

Entity name	ABN	Qualified for categories within Scheme(s)
DELOITTE TOUCHE TOHMATSU	74490121060	SCM0005, SCM0020
EY DIGITAL PTY LIMITED	43096505805	SCM0020
ERNST & YOUNG	75288172749	SCM0005, SCM0020, SCM1191
KPMG	51194660183	SCM0005, SCM0020, SCM1191

<b>Entity name</b>	<b>ABN</b>	<b>Qualified for categories within Scheme(s)</b>
KPMG HANDS-ON MANAGEMENT PTY. LIMITED	31002881058	SCM0020
KPMG PROPERTY & ENVIRONMENTAL SERVICES PTY LIMITED	53103479992	SCM1191
PWC STRATEGY& (AUSTRALIA) PTY LTD	11130171658	SCM0020
PRICEWATERHOUSECOOPERS CONSULTING (AUSTRALIA) PTY LIMITED	20607773295	SCM0005, SCM0020
PRICEWATERHOUSECOOPERS	52780433757	SCM0005, SCM0020, SCM1191
PRICEWATERHOUSECOOPERS INFORMATION TECHNOLOGY SERVICES (AUSTRALIA) PTY LTD	52155555650	SCM0020

#### QUESTION 4 (TRANSCRIPT PAGE 24/25)

**The Hon. PETER PRIMROSE:** I note in your submission on pages 7 to 11 you describe the Government's arrangements for procurement from devolved government agencies. For each of those, how difficult is it to put another column there saying how much, in terms of monetary value, say, for 2022-23, was involved by that agency in the use of consultancies?

**SONYA CAMPBELL:** If I've understood your question, are you talking about in the way that we are reporting at a total State sector perspective?

**The Hon. PETER PRIMROSE:** How about I put it in my way. How much did the portfolio Premier in 2022-23, say, at the end, use for the purchase of consultancy services?

**SONYA CAMPBELL:** That would be reported through that agency's annual report.

**The Hon. PETER PRIMROSE:** Rather than go through 3,000 annual reports, how difficult is it for someone else, such as you guys, who are involved in organising a particular component of this, to actually have that? So I can open up and, when you present this to the next inquiry in a couple of years' time, there is another column there that says, "The body that uses the most consultancy work is, in fact, X."

**SONYA CAMPBELL:** Yes.

**The Hon. PETER PRIMROSE:** I can't tell from this who's using the most consultancy in terms of value of money.

**SONYA CAMPBELL:** I think we could certainly do that.

**The Hon. PETER PRIMROSE:** There's another column I'd like — I don't know who would provide it — and that is for all of the other consultancies used by that portfolio. What's missing in terms of our knowledge about the use of Education? What other consultancies, other than for that column, would be in another column that you don't have access to?

**SONYA CAMPBELL:** I think we just have to be clear about what definitions we're using in this context.

**The Hon. PETER PRIMROSE:** Okay. I'm using a definition of giving money to people to give you advice.

**SONYA CAMPBELL:** I understand, but this is why there has been great debate around the current definition of consultancies and that giving of professional advice to assist decision-making versus —

**The Hon. PETER PRIMROSE:** We've discovered from the Senate that the defence department uses four times more money than anyone else. I still don't know who uses the most consultancies, because, since something like 1864, from the bureaucracy here or anyone else, even though we're paying people lots of money and we're trying to regulate them, there's still no agreement in relation to who these consultants actually are and how we define them. How about someone actually determines — and I don't know, someone in charge of procurement — who you're giving the money to and calling consultants, and puts a table there, so I can tell how much is being given by Education to these guys?

**SONYA CAMPBELL:** I think the question you want to ask is how much are we spending on professional services firms across different types of services.

**The Hon. PETER PRIMROSE:** I would imagine that, given the number of senior people involved, that should be readily available, shouldn't it?

**SHAUN SMITH:** It is published in each agency's annual report. I take your point about the annual reports.

**The Hon. PETER PRIMROSE:** How about I don't go through dozens of annual reports? Presumably, you are the guys looking at procurement. You must have that centrally. Does anyone in your agency go through and actually have a look at what other people are spending in relation to consultants?

**SHAUN SMITH:** We do have the data that's provided by agencies, and that is amalgamated. The point I was going to make in relation to annual reports is that the information is provided at a point in time into the central procurement team, and there are administrative arrangements that change around the shape of government agencies. So my particular agency has had a machinery of government change every year since 2018.

**The Hon. PETER PRIMROSE:** I used to work 10 years as a public servant; I know how it works. I know how it changes all the time. I know how the budget changes every year so you can't follow how much is allocated. But let's go back to a particular time — 2022-23. It's over; it's gone. For that particular year, you must be able to deliver us an idea, centrally, about how much was actually spent, using the definition that we've been given by Ms van der Walt in terms of what a consultant is.

**MARINA van der WALT:** We should be able to do that. We are collecting that information for the financial year ending 2023, and it's those agencies that are required to report. So that will capture the major portfolios across government.

**The Hon. PETER PRIMROSE:** That would be really valuable. Could I also ask if you could include in that what you believe is missing and who else we need to approach to get that additional information? As I said, at this stage, sitting here through many things, I still don't know how much has actually been spent on whom, and because we don't have a clear definition, I don't even know for what.

## **ANSWER**

Agency consultancy expenses for FY2022-23 will be consolidated and presented in the Total State Sector Accounts which is expected to be published by December. The Total State Sector Accounts are currently being aggregated, reviewed and audited. FY2022-23 agency consultancy expenses can be provided once the Total State Sector Accounts are finalised and released.



## QUESTION 5 (TRANSCRIPT PAGE 29/30)

**The CHAIR:** I go back to that point on business cases. I want to get this clear. From what I'm hearing, although there are guidelines and there are expectations as to how a business case gets prepared by an external consultant, there is no situation where we go back and assess, years down the track, whether or not the business case was actually correct —

**SONYA CAMPBELL:** I can answer that question. I think it was framed —

**The CHAIR:** Can I finish this bit because this is vitally important. A couple of years ago there was a disclosure about School Infrastructure spending \$10 million a year on Deloitte to write business cases for small-scale infrastructure projects. The other week we heard from NSW Ambulance about the \$400,000 they were spending on Deloitte to do business cases for them. If we are spending all this money on consultants to do business cases that otherwise could be done by government, what are we doing to make sure those business cases are actually robust and worth the money?

**SONYA CAMPBELL:** I talked about the front-end process. I think the part to your question I did not answer was what do we do at the back end if the projects have not delivered. Two things, and then I am happy to give Ms van der Walt an opportunity to respond as well. Certainly in the infrastructure space the Gateway policy and assurance framework require a final gate, which is around benefits realisation. I think we would accept that that is probably not done as routinely as we would like it to be done, so there is an opportunity to be looking at whether benefits have been delivered and, if not, why not? I think, to Mr Manning's earlier point, that could be for a whole range of reasons. There could be root causes around the quality of the inputs, which could be from consultant input. I think the other thing, and this might be what Ms van der Walt wants to talk about, is the outcomes budgeting approach from Treasury — and I might defer to you, Ms van der Walt, to explain this better than I might — where we are looking to make sure there is clear linkage to expenditure, programs and benefits, and being able to assess that they have been delivered as part of annual budget cycles.

**MARINA van der WALT:** We might need to get some more information for you, but there is another group in Treasury, our economic strategy and productivity group, that captures all the — they have got an evidence bank of all the business case BCRs, and that is to support evaluations of those projects and business cases and a comparison bank.

**The CHAIR:** We have talked about secondments before and the idea of different consultants coming in and basically sitting within departments. There were a couple of eTender entries that piqued my interest around Treasury's use of secondees. I am looking at one from 22 June this year that was published. This is for a six-month contract with Deloitte, valued at around \$680,000: secondments to Treasury to support with reviewing the agency's monthly data submissions and providing support to the team over year-end processes. How many people are seconded under that contract and why couldn't they be sourced as employees?

**MARINA van der WALT:** I can get you the data about the number of people. We're in a unique situation this year where the production of the Total State Sector Accounts overlaps with the production of the budget. That is because of the elections and change of government and the Government deciding to deliver the budget in September. There are

busy periods through the year generally when we produce the financial reports, because this team in Treasury is responsible for producing the monthly financial reports that are published on our website. They're also responsible for producing the Total State Sector Accounts, as well as the aggregates, which are the total numbers for the budget process. Because of the peak in workload this year, we have relied on some additional labour hire.

**The CHAIR:** There was no way that those people could be brought on as employees and then redeployed for the other half of the year to do something else?

**MARINA van der WALT:** That is a model that we are looking at going forward and under a steady state where the budget and Total State Sector Accounts won't overlap. In a normal year our budget would be handed down sort of late June and the sector accounts by October, November — would be the aim. So there's no overlap in —

**The CHAIR:** You referred to them as "labour hire", effectively. Is that because now no-one knows what "consultants" is and what is not? Would that be categorised as "consulting services" in Treasury's accounts or as —

**MARINA van der WALT:** No, if you go to note 3, you will see that that is actually disclosed separately.

**The CHAIR:** Then we have another two that look the same but are two different companies. We have one-quarter of a million to KPMG and one-quarter of a million to Deloitte, I believe. These are contracts that run from 23 March to 24 September, so they go for 18 months — support on accounting and financial advisory services under the AASB. Now, this seems to be some sort of accounting policy support. Again, it's half a million dollars for both of these. Are these secondees? What are they?

**MARINA van der WALT:** Sorry, I'm going to need a little bit more detail on that. What was the date at which that was —

**The CHAIR:** The date that they were published is 18 April. The contract duration is from 6 March 2023 to 6 September 2024. It is called "accounting policy support". One is with KPMG and one with Deloitte, both for one-quarter of a million each, saying "support on accounting and financial advisory services under the Australian Accounting Standards and/or Government Finance Statistics and for highly technical and complex matters — 18 months". You might need to come back to me on that one.

**MARINA van der WALT:** I'll take that one on notice.

## **ANSWER**

Deloitte and KPMG were selected through a competitive tender process, where a selection panel assessed tenderers against selection criteria.

The contracted amounts are maximum expenditure under the contracts. This allows quick access to highly specialised skills and knowledge at short notice.

To date \$nil has been used under either contract. If there is no utilisation of the services, there is no expenditure (there is no standing charge or retainer as part of the contract).

At the time of the tender, the Treasury Accounting Policy team had several vacancies in the team and there was limited availability of resources in the labour market. The outsourced contracts ensure that Treasury always has sufficient specialist accounting resources available to support delivery of the various legislated financial reporting obligations.

The Request for Tender (RFT) covered a wide range of possible support services, including:

- a) Provision of management discussion papers on specific transactions, accounting matters, or accounting standards.
- b) Provision of branded advice on specific transactions or accounting matters.
- c) Provision of training personnel to facilitate understanding of the requirements of Australian Accounting Standards and/or Government Finance Statistics Manual requirements.
- d) Facilitation of workshops or meetings to discuss in more detail accounting issues in relation to specific transactions or accounting standards.
- e) National and global outreach to member firms or research based on publicly available materials on similar or related issues.

For Treasury to provide the best accounting support to government and to other agencies, testing and topping up our existing internal skills and knowledge is critical. For example, through these contracts Treasury can consult with Deloitte or KPMG experts to test our interpretation of highly complex technical points in the accounting standards or GFS principles.

Separately, Treasury's Total State Financial Reporting team has engaged Deloitte through a competitive tender process to provide contract labour to support the year-end peak of work related to preparing the Total State Sector Accounts. As mentioned by Deputy Secretary Marina van der Walt during the hearing, Treasury's Total State Financial Reporting team is in a unique situation this year where the production of the Total State Sector Accounts overlaps with the production of the Budget. This team is responsible not only for producing the Total State Sector Accounts, but also contributes key information to the Budget process and prepares monthly financial reporting for Treasury.

The term for this current Deloitte contract is only for one year and ends in December. Over the coming months, Treasury will review its resourcing plans for delivery of the Total State Sector Accounts in 2024 and in future years.

## **QUESTION 6 (TRANSCRIPT PAGE 30/31)**

**The CHAIR:** Another one here — a three-year agreement to provide actuarial services for NSW Treasury published on 13 February 2023. This one is \$901,890 with Mercer consulting. This is a three-year agreement to provide actuarial services. Again, is this not core government work? Why are we using consultants and not employees?

**MARINA van der WALT:** This is a very specific role that Mercer performs with Treasury and that is to value the defined benefits superannuation liability. That's reported in the accounts.

**The CHAIR:** And it can't be done internally?

**MARINA van der WALT:** The requirement for that is, once a year —

**The CHAIR:** That it be independent? That it be once a year?

**MARINA van der WALT:** It's independent, once a year. Then every third year there's another consultant that provides another overlay —

**The Hon. MARK BUTTIGIEG:** It's basically judging risk profile when people are going to pass away in terms of how much you have to pay them, correct?

**MARINA van der WALT:** It's complex. So it does involve that. It involves escalation — yes, the timing of when people will be retiring. It's subject to investment returns, what the current escalation rates are.

**The Hon. MARK BUTTIGIEG:** I don't want to sound dismissive but you would have economists and people resident in Treasury, wouldn't you, who would be, I would've thought — it doesn't sound like a very complex mathematical —

**MARINA van der WALT:** It is complex.

**The Hon. SCOTT FARLOW:** Give it a go, Mark. Offer your services.

**The CHAIR:** For \$300,000 a year.

**The Hon. SCOTT FARLOW:** To that point, is there a requirement for that to be independently verified and that it isn't done in-house in terms of that valuation and assessment?

Valuations are typically something that need to be independently verified; they are not something which you come and sight yourself. Is there that requirement?

**MARINA van der WALT:** I will need to get back to you on that in terms of whether there is a legislative requirement for us to do that.

**The Hon. SCOTT FARLOW:** You can take it on notice.

## **ANSWER**

There is no legislative requirement for Treasury to use independent actuaries.

Mercer does valuation work for Treasury for Government's financial accounts (30 June accounts), and for Budget and HYR projections, but also provides broader advice and scenario analysis to assist Treasury in funding decisions relating to Government's defined benefit superannuation liability.

Actuarial valuation and advice for defined benefit superannuation is specialised. The contract with Mercer was awarded after a competitive tender process.

The Federal Government maintains the Australian Government Actuary unit to perform actuarial work for the Commonwealth public sector. The unit employs over 20 actuaries as well as additional support staff. Despite this dedicated team, Mercer is also employed by the Commonwealth Department of Finance to do the same type of valuation work for its accounting statements and Budgets that Mercer does for NSW.

Similarly, Mercer is employed by Tasmania and South Australia to do this type of work, while Western Australia and Victoria employ PwC for their actuarial requirements for DB super.