

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

NSW Procurement

SUPPLEMENTARY QUESTIONS

Response due: Wednesday, 6 September 2023

QUESTION 1

In response to Questions on Notice in relation to the hearing held on 15 June 2023, NSW Health provided the following answer to Q6: "The NSW Procurement Board requires accredited agencies to provide an annual outcomes report, annual procurement plan and a self-assessment attestation as part of their accreditation requirements. The self-assessment attestation requires the Secretary, NSW Health to confirm that best endeavours have been undertaken by their agency to comply with their accreditation requirements. The NSW Procurement Board has not previously raised any concerns with regard to the NSW Health self-assessment attestation."

- a. How many times has the Procurement Board ever raised concerns with any agency's self-assessment attestation? Please provide details.
- b. Why has the standard for compliance in the self-assessment attestation statement been limited to 'reasonable endeavours'?
- c. Does the reference to 'reasonable endeavours' effectively render the self-attestation statement pointless, since every year the Secretary of each agency can simply subjectively say they endeavoured to comply and the Procurement Board is relatively powerless to argue otherwise?
- d. Does the form of the self-attestation statement required by the Procurement Board prod each Secretary to detail where, despite best endeavours, they fell short of complying with their accreditation requirements?

ANSWER

- a. Accredited agencies self-assessment attestation is summarised and consolidated for noting by the Procurement Board delivering a high-level overview of the attestation metrics. Given this level of reporting the Procurement Board has not identified any concerns.
- b. The "reasonable endeavours" statement takes into consideration the breadth and complexity of procurement activities across (in many cases) diverse agency industries under the oversight and direction of each Secretary (or Agency Head).
- c. The self-attestation process requires information to be provided around the efficiency and effectiveness of procurement undertaken during each reporting period against the Accreditation Metrics. That said, there is opportunity to improve and enhance the self-attestation requirement and the Board's oversight of accredited agency procurement.
- d. The self-attestation reporting process allows for each Secretary (or Agency Head) to include additional information on non-compliance with accreditation requirements.

QUESTION 2

The details for consultant engagement received through Health NSW show PwC receiving around a quarter of all money spent on consultants over the last 12 years.

- a. Does the Procurement Board monitor the concentration of consultant services provided?

- b. Are there any processes in place that would identify a disproportionate use of a particular consulting firm to the attention of the Procurement Board? If not, why not?

ANSWER

- a. Procurement Board Direction (PBD 2021-03) Engagement of professional services suppliers requires NSW Procurement to report to the Board (and the Minister for Finance) at least annually on the use of professional services under the whole-of-government Performance and Management Services Scheme. This report currently includes total expenditure as well as expenditure with the top 5-10 suppliers by professional services category type.

The Auditor General's report on the use of consultants (March 2023) included a recommendation for NSW Procurement to monitor strategic risks more comprehensively, including supplier concentration risk. In response to this recommendation, NSW Procurement will augment its next report to the Board (November 2023) to incorporate additional analysis and insights on supplier concentration.

- b. See comments above in (a). In addition, under NSW Government's devolved procurement model, demand management, including which consultancy firms to engage within the approved procurement arrangements, is primarily the responsibility of the procuring agency. Given the diverse industries that procuring agencies operate in, they need to strategically monitor and assess risks, including concentration risks, when engaging consultancy firms.

QUESTION 3

Does the Procurement Board look at trends of procurement across agencies to ensure, for example, that agencies aren't using consultants in areas where there is a repeated and consistent demand for services that could instead be sourced in-house? If not, is there another part of the government tasked with that role?

ANSWER

While the Procurement Board has considered trends and systemic drivers of demand for the external workforce (e.g., contingent workers, consultants), in NSW Government's devolved operating model, decisions relating to the use of external workforce vs. in-house capability are the responsibility of the individual agency given the diverse industries that each agency operates in. To support agencies, a framework for agencies' strategic workforce planning is provided by the Public Service Commission.

QUESTION 4

In relation to the Standard Commercial Framework (SCF) effective from 1 April 2022, provided to us by Health in response to Questions on Notice:

- a. Did any consultants advise on, or were any consulting firms otherwise involved in, the creation of the SCF?
- b. What factors were considered in agreeing to the 10% secondment discount? Why was the 10% figure chosen? What is the understanding under the SCF of what a 'secondment' is for these purposes?
- c. Does the SCF make it easier for participating firms to be involved in direct and limited tendering processes? If so, has the SCF increased, or would it reasonably be expected to increase, the concentration of those larger consulting firms winning contracts?

ANSWER

- a. No consultants advised on or were otherwise involved in the creation of the Standard Commercial Framework (SCF) which took effect from 1 April 2022.
- b. The secondment discount is one of several discounts built into the SCF to enhance value for money. The 10% secondment discount reflects a lower cost-to-serve, as the seconded resource works under the direction of the engaging agency. The figure of 10% was determined as part of commercial negotiations with suppliers when the SCF was established by NSW Procurement. Under the SCF, a secondment is where the professional services firm provides personnel to augment the engaging agency's team for a temporary period and works under the direction and management of the agency on a secondment basis to help deliver the objectives of the Statement of Works project.
- c. The SCF permits direct engagements up to certain value thresholds (e.g., up to \$250,000 for engagements with fully prequalified suppliers). The SCF streamlines the engagement process by pre-defining commercial parameters such as capped daily rates within which tenderers compete or are directly appointed. The concentration of expenditure with the Big 4 professional services firms, as a percentage of the top 19 suppliers who report business advisory services data to NSW Procurement, has remained stable since the SCF was introduced in 2018, which suggests the SCF has not led to an increase in concentration of spend with the Big 4 professional services firms.

QUESTION 5

In your answers to questions on notice from 15 June (para 3.2), you note that the accuracy of recording consulting spend is reliant on agencies effectively recording and managing consulting engagements:

- a. What proactive steps do you take to ensure that agencies are accurately recording their consulting spend?

- b. You note the two main sources of expenses recording used by the NSW Government: Prime and Spend Cube.
- i. Why were all of KPMG, Deloitte and PwC required (and at a cost of around \$50m) to develop Prime?
 - ii. What roles did they each have in its development?
 - iii. What involvement do these firms or any other firm currently have in maintaining Prime?
 - iv. Are any consultants involved in the establishment and use of Spend Cube as well?

ANSWER

- a. For completeness and accuracy over the consultant spend in the Total State Sector Accounts, guidance is shared in the NSW Treasury policy and guidelines - Agency direction for mandatory annual returns to Treasury, providing a definition and appropriate account code for agencies to use in Treasury's Prime system so this is appropriately consolidated. The definition is aligned with the Procurement Board's definition of a consultant.

It is expected that agencies maintain appropriate records so that when their financial statements are audited there is sufficient audit evidence. Should amounts have to be updated either from management review or part of the audit process this is shared with Treasury and updated as appropriate in the Total State Sector Accounts.

In addition, NSW Procurement has been proactively working with agencies to implement and use a requisite system that records and manages professional services engagements, such as a vendor management system. NSW Procurement is also working with the NSW Procurement Board to continuously improve the quality of data as part of each agency's accreditation obligations as well as expanding guidance on applying the definition of 'consulting' (vs. 'professional services') when recording spend. NSW Procurement will be seeking to triangulate agency sourced engagement data noted above with agency system generated invoiced expenditure data to provide further insights on professional services and consultancy expenditure by agency.

- b. i. & ii. The implementation of Prime was a once-in-a-generation IT implementation, to replace the previous IT system that was over 30 years old. Unavoidably, the needs of such a significant and unique project far exceeded the capacity and capabilities of the in-house Treasury IT team. Accordingly, external firms were engaged following competitive processes to develop and implement the system.

PwC was the initial consulting and implementation partner, selected to partner with NSW Treasury to deliver Prime, as part of FMT (Finance Management

Transformation) program. The majority of the spend on Prime was with PwC, including overall Functional and Technical design for the new system, as well as Development of all core components.

After Prime went live in 2017-18, PwC was disengaged and Deloitte was then engaged to deliver a series of targeted optimisation phases. Four consecutive phases of optimisation were delivered by Deloitte, all of which concluded in 2018-19.

Neither PwC nor Deloitte have been engaged to work on the Prime since then.

KPMG has only been used, on an ad-hoc basis, for very small and specific consulting engagements, mainly to provide independent review and/or guidance on specific aspects of Prime, including the development of a replacement Prime user interface, and the migration from on-premises data centres to cloud infrastructure for the entire Prime ecosystem. These engagements occurred in 2019-20 and 2020-21.

KPMG has not been engaged since then.

- b. iii. Neither KPMG, Deloitte nor PwC have any role in maintaining Prime.

For completeness, note that Deloitte has been engaged on two projects that are separate from, but related to, Prime:

In 2021-22 – a project to implement a tool for preparing the State’s consolidated financial statements, which uses Prime data.

Currently – a project to establish a data warehouse to use more efficiently and effectively all of Treasury’s data. Only part of the data that the data warehouse will use comes from Prime.

James and Monroe are engaged as the managed service and application support partner for Prime.

- b. iv No consultancy services (i.e., advice) were engaged before, during or currently in the development and implementation of Spend Cube or supporting systems. However, professional services (i.e., non-advice) were engaged on one occasion to support the implementation of a Whole of Government Taxonomy reporting structure in the Spend Cube in 2018.

QUESTION 6

The NSW Government Infrastructure Traineeships program involves trainees spending time at consulting firms. Does the Procurement Board issue any guidance or provide any monitoring of the involvement of consulting firms in that or any similar program?

ANSWER

The NSW Government Infrastructure traineeship program is a Department of Education program to support recent Year 12 students seeking an office-based career in infrastructure. The traineeships provide VET qualifications and paid work experience in infrastructure-related roles across the public and private sector. It is not a program relating to the use and management of consultants by NSW Government and therefore not a program overseen by the Procurement Board.