

**REPORT ON PROCEEDINGS BEFORE**

**PUBLIC ACCOUNTABILITY AND WORKS COMMITTEE**

**NSW GOVERNMENT'S USE AND MANAGEMENT OF CONSULTING  
SERVICES**

**CORRECTED**

**At Macquarie Room, Parliament House, Sydney on Friday 28 July 2023**

**The Committee met at 12:00.**

**PRESENT**

Ms Abigail Boyd (Chair)

The Hon. Mark Buttigieg

The Hon. Greg Donnelly

The Hon. Wes Fang

The Hon. Scott Farlow (Deputy Chair)

The Hon. Sarah Kaine

The Hon. Jacqui Munro

The Hon. Emily Suvaal

**PRESENT VIA VIDEOCONFERENCE**

The Hon. Peter Primrose

\* Please note:

[inaudible] is used when audio words cannot be deciphered.

[audio malfunction] is used when words are lost due to a technical malfunction.

[disorder] is used when members or witnesses speak over one another.



**The CHAIR:** Welcome to the fourth hearing of the Public Accountability and Works Committee's inquiry into the New South Wales Government's use and management of consulting services. I acknowledge the Gadigal people of the Eora nation, the traditional custodians of the lands on which we're meeting today. I pay my respects to Elders past and present and celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales. I also acknowledge any Aboriginal and Torres Strait Islander people who are joining us today or watching on the live stream. So far in this inquiry the Committee has focused on evidence from New South Wales government agencies, particularly in the health sector. At today's hearing we'll be hearing the perspectives of academics and researchers with expertise in researching the public sector. We'll also hear from Chartered Accountants ANZ.

Before we commence, I'd like to make some brief comments about the procedures for today's hearing. Today's hearing is being broadcast live via the Parliament's website. The transcript of today's hearing will be placed on the Committee's website when it becomes available. In accordance with the broadcasting guidelines, the House has authorised the filming, broadcasting and photography of Committee proceedings by representatives of media organisations from any position in the room, and by any member of the public from any position in the audience. Any person filming or photographing proceedings must take responsibility for the proper use of that material. This is detailed in the broadcasting resolution, a copy of which is available from the secretariat.

While parliamentary privilege applies to witnesses giving evidence today, it does not apply to what witnesses say outside their evidence at this hearing. I therefore urge witnesses to be careful about comments that you may make to the media or to others after you complete your evidence. Committee hearings are not intended to provide a forum for people to make adverse reflections about others, under the protection of parliamentary privilege. In that regard it's important that witnesses focus on the issues raised by the inquiry's terms of reference and avoid naming individuals unnecessarily.

All witnesses have the right to procedural fairness according to the procedural fairness resolution adopted by the House in 2018. If witnesses are unable to answer a question today and want more time to respond, they can take a question on notice. Written answers to questions taken on notice are to be provided within 21 days. If witnesses wish to hand up documents, they should do so through the Committee secretariat. In terms of the audibility of the hearing today, I remind both Committee members and witnesses to please speak into the microphone. Finally, could everyone please turn their mobile phones to silent for the duration of the hearing.

**Emeritus Professor JAMES GUTHRIE, AM**, Emeritus Professor, Macquarie University, and Fellow Certified Practising Accountant, affirmed

**Professor JOHN DUMAY**, Professor of Accounting and Finance, Macquarie University, and Certified Accountant, affirmed

**Dr ERIN TWYFORD**, Senior Lecturer, University of Wollongong, and Certified Accountant, affirmed

**The CHAIR:** I welcome our first witnesses. Would you like to make a short opening statement, if you have one?

**JAMES GUTHRIE:** Yes, we'd like to. Thanks for the opportunity to make a submission to the inquiry. Our submission is informed by research we have undertaken into the consulting industry in Australia, especially the big four accounting firms. The State Auditor-General has identified \$1 billion of consulting services in New South Wales government between 2017 and 2022. The significance of the consulting industry in shaping what we call new public sector management is really important and should be acknowledged. The consulting industry are enablers of making change in the public service and the public sector. We've given evidence to the Commonwealth inquiry into consulting services and we made the case that we think it's an issue of culture.

There's a big issue associated with lack of transparency and lack of accountability in these partnerships. It's not just consulting; it's also auditing. They've got the different arms and there is a real issue there. Myself and Alan Fels have written a couple of opinion pieces and made a submission to the Commonwealth, and we argue for the breaking up of the auditing from consulting—a proper separation—because that will be the only way we can get around the conflicts of interest.

Finally, from my perspective, we're arguing that all contractors to the New South Wales Government should declare any conflicts of interest. In the paper over the last couple of weeks, we've had plenty of conflicts of interest where one firm is providing policy advice, then that same firm is doing the economic modelling, and that same firm is then undertaking financial planning for the—I won't name it. It was just like they had a finger in every pie. That's just become obvious. We're only in this position now—it is only because of investigative journalism and because of parliamentary inquiries that this material has started to come out of the ether. It was only 18 January, I think, when the PwC tax scandal was reported and, even then, it wasn't really until May that we started to get some real details about a lot of these issues going on. The Commonwealth inquiry is unearthing new material every day.

**ERIN TWYFORD:** Just to continue, big consultancies often work both sides of the street. They will advise, for example, leading fossil fuel polluters and also government on mandates to reduce national emissions; audit a large prime contractor while at the same time bidding for similar contracts; or write Federal tax legislation while advising clients on how to sidestep it. Our submission outlines recent cases of conflicts of interest exposed by investigative journalists. This has included PwC and its failure to disclose its interest in a private education provider while conducting a confidential review into the Commonwealth regulator of private colleges. That was with TEQSA. As a further example, KPMG was paid by the Aged Care Quality and Safety Commission to undertake audits of residential aged-care facilities while charging providers for advice on audits and accreditation.

As a final example, as James mentioned, the PwC tax scandal that's unfolded over the last couple of months has seen them walking both sides of the street in advising the Government on its new anti-tax avoidance legislation while simultaneously devising tax schemes designed to circumvent the new legislation as soon as it was enacted, for its most prominent clients worldwide. Therefore, we recommend that consulting firms that want to work for government should be made to disclose things such as any clients they advise that could potentially conflict with the public sector work and the advice provided. Further, this disclosure should be made available on a publicly accessible register.

**JOHN DUMAY:** Our submission focuses on the overuse of consultants by the New South Wales Government and its impact on the New South Wales public sector and public services. Our central proposition is simple. Consulting partnerships and firms are not publicly regulated. However, self-regulation lies with the individual members of a professional accounting body or registered auditor or tax agent. The self-regulation is embedded in professional bodies' codes of ethics and practices. It is not applied to firms or partnerships but to individuals. Currently, there are few enforcement measures for integrity breaches and unethical behaviour by consultants and firms.

Professional bodies, such as the accounting and legal professional associations, take limited action against members who are partners in the big four consulting firms. Revelations about conflicts of interest and unethical behaviour are primarily due to whistleblowers and investigative journalists rather than as a result of self-regulation or self-reporting. Even if there is some self-regulation and self-reporting, it is conducted behind closed doors with

limited or no public transparency. We recommend that the Government help educate and empower the public service, invest in capacity building and creation. We further recommend that the Government embed learning as an end point into all contract evaluations.

**The CHAIR:** Thank you very much for your detailed submission and for your attendance today. I'm particularly interested in talking about the conflict-of-interest issues. Before we do that it might be useful for the Committee if we could get an understanding of what the regulation is for consultants in New South Wales. I appreciate that may be different depending on whether they are also registered as accountants or as lawyers or whatever, or if they are management consultants of a different type. But I'm very interested in understanding, if there is wrongdoing in the course of anything that a consultant is doing in relation to government work or a government agency, what are the consequences of that wrongdoing.

**JAMES GUTHRIE:** Very little. It depends on the contract you've got with them. We talk about the big four accounting firms. They're partnerships. Nearly all their partners would be members of Chartered Accountants Australia and New Zealand. They have a self-reporting mechanism but none of that was done at PwC. The PwC case now has been referred to the American—I've got to get my names right—PCAOB. That has power in Australia. That's about the only form of regulation we can find on the big four. That was set up after the Andersen Enron disaster, which cost somewhere between \$63 billion and maybe \$100 billion. That was set up to oversight the auditing industry, and they reach into Australia because they were the ones that exposed KPMG cheating and fined them. What happened was in quite a number of these big firms staff had been cheating on their exams, especially on their ethics exam, which is quite interesting now all this stuff's come out. They were fined a lot of money. Then if we peel it back, it gets back to the professional associations—so Chartered Accountants Australia and New Zealand, CPA, IPA and the tax association, I think they're called. They all have ethical rules and codes of conduct. But guess what? They've done nothing.

**The CHAIR:** So they have rules, and we've heard this a lot in—

**JAMES GUTHRIE:** They have rules and ethical codes of practice. As far as we can see, there's been no disciplinary action taken against KPMG or PwC over these matters. I worked for them for ten years as an academic adviser, and they just seem to go after little fish. It's a bit like the tax board in the PwC case—what they do at the tax board. They just banned the partner from PwC for two years from being a tax agent.

**The Hon. EMILY SUVAAL:** Have you formed a view about what appropriate penalties might be for various breaches?

**JAMES GUTHRIE:** I suppose this is the discussion they're having at the Commonwealth level. Senator Deborah O'Neill has announced a new inquiry, which will be the fourth one—one here and three up there. Hers focuses very much on regulation, transparency and the partnership model. That's what she's trying to get a handle on. Her second inquiry is on the effectiveness of ASIC. ASIC has walked away from auditors—sorry. The only power that ASIC has is for the consultants that are listed as companies under the Corporations Act, but the partnerships are just—no-one oversees them.

**ERIN TWYFORD:** If I can add to that, when we're looking at consultants doing work for government, they're effectively working as public servants. They're doing the work of the public service. If we're talking about what sort of disciplinary measures we would like to see, it would be the same as those imposed on public servants. You shouldn't be able to hide behind a corporate veil if you are essentially doing the work that a public servant would do in the public sector. There are already in-built disciplinary measures; it's the idea of removing that corporate veil and saying, "If the taxpayer is paying for you to come and do the work and it's supposed to be in the public interest, then any deviations of behaviour should be dealt with as if you were a public servant." We've seen huge discrepancies, as James mentioned, between what happened to Peter-John Collins and what's happened to people who work for the public service in the case of insider trading or even whistleblowing. So that would be my recommendation.

**The CHAIR:** One of the issues that we've been looking at in the context of NSW Health in particular is not just the conflicts of interests that a firm might have in acting for the Government plus acting for some other entity or corporation, but also this phenomenon we have where these consultants are sitting on government agency boards. My understanding—and I'd love you to confirm or deny this—is that unlike a private company, where we have directors' duties applying under the Corporations Act, for a government sector agency like a local health district board, a director sitting on one of those boards isn't subject to those same duties and consequences. If a consultant is sitting on one of those boards and does something wrong, what consequence is there for that person?

**JAMES GUTHRIE:** I couldn't form a judgement on that; that's outside of my expertise. But on the train coming up this morning, we were talking about this in that what we're finding in the corporate sector, the big four—actual partners or ex-partners—are on boards and on audit committees. They don't see any conflict of

interest there when the auditor comes along or they do consulting work. We're talking about I think \$3 billion, \$4 billion—anyway, it's a huge amount of money that they get from the corporate sector, only from listed companies we can see, but they have infiltrated onto the corporate boards and audit committees.

**The CHAIR:** Could I put this to you? From PwC data that they provided to this Committee on notice, there are at least 25 New South Wales public sector boards with a current PwC partner or employee sitting on them. That's just PwC, on 25 of our boards. I know from my own research that there are a lot of current consultants from the other big four also sitting across a huge number of government boards. Does that sound like a problem to you? Should we be getting better regulation to cover those kinds of situations?

**JAMES GUTHRIE:** It becomes a catch 22, doesn't it? It depends how much work you give the big four to do public services. I just read on the train this morning that your Treasury was getting one of the firms to write the minutes, to hold the meetings and set the agenda for NSW Treasury. The guy in NSW Treasury—it was exposed at the beginning of the year over the KPMG thing—was putting "Cabinet in confidence" on his documents, on his letterhead and on his emails. This is a partner in a big four embedded in Treasury. They called him a "rainmaker". That's what he was; he was a rainmaker. He was only there to get extra work. Just terrible behaviour.

**The Hon. EMILY SUVAAL:** Do you think it would make a difference if there was some sort of professional body for consultants? We've talked about professional associations, but if there was some sort of register or certification or something like that?

**JAMES GUTHRIE:** This was brought up on Monday last week, or whatever it was, in the Senate committee. It was pointed out that there's no professional body for "consultant". Anyone can call themselves a consultant. I'm a consultant, and there's no—anything around it. So it gets back to not the individual, I think; it gets back to the firms' structures and their lack of transparency.

**JOHN DUMAY:** Yes, I mean, I think that that's really the point: If you set up an oversight body or another professional association and if they operate by the same rules and oversight mechanisms that we have now, and self-regulation, that's not really going to solve anything. We just recently had the chartered accountants review all their procedures, and they really confirmed that unless an outside body—like, if somebody is convicted by a court, for example, we'll name that person because that person's already been named by the court. But if there's disciplinary action against members, it's all done behind closed doors. So when you had the KPMG exams cheating scandal, we don't know who the people are that were sanctioned. Nobody knows who they are.

**JAMES GUTHRIE:** KPMG said two partners left the firm, and there were 1,500 people involved in that cheating scandal. And that's not the only one—it's happened in EY; it's happened in America—which gets to the culture of the organisation. Here you have trainee auditors cheating on their ethics exam. It's like, "Well, that sends a good message!"

**JOHN DUMAY:** And when something happens, we just do everything behind closed doors. We close the doors; we deal with it internally. We then say, "We've wiped our hands of it; we've done our job; we've complied with the ethical standards." But at the end of the day, when you sit on our side of the street, you go, "Well, does it pass the pub test?" It doesn't—quite simple.

**The Hon. GREG DONNELLY:** I follow on from my colleague's question. Thank you for your submission. It's relatively short, but it has a lot of punch to it under each of the four headings you outline on page 1. But I put to you that looking back in years to come, if we had a crystal ball—say, 10 years—we'll probably see this all evolve, presumably picking up some, if not all, of what you're proposing and perhaps some other things as well. We'll be able to look back and see how this matter has been addressed by Australia, and then it'll be clear to us that that is how it's developed. As part of this, we essentially have an oligopoly operating amongst the four big players. In a sense there is almost a threshold question that, as part of the economy in this very specialised area, we have a fundamental problem with an oligopolist practice amongst the four.

That lends itself to thinking, "Does that need to be looked at, as well, as part of the overall consideration?" because oligopolies do what oligopolies do. That's no excuse; I'm simply saying it from an economic point of view. History tends to show, although not always, that you have to break down that oligopoly. I've noted the points you've made about the way in which there needs to be, if we're going to tackle this, a demarcation between auditing and consulting. I'm just thinking about it in my mind. If you take auditing—and I'm not an auditor, so I welcome your thoughts on this—a lot of the auditing work that is done by these organisations is very large jobs. Outside those large companies, who has the capacity to do some of those massive audit jobs? Of course, that comes back to this feedback to the oligopoly. They've got the jobs; they're not going to let them go. Therefore, you've got to essentially try to tackle this on many fronts at once. I welcome your thoughts about that.

**JAMES GUTHRIE:** I was writing about that last week for the fourth inquiry, and my line of argument was we've got a real problem because we've got a big four; we may have big three soon. If PwC explodes, we may have that and Arthur Andersen. Then we're getting less and less, so the oligopoly nearly becomes a monopoly. I'm not quite sure what the solution to it is. This is not a New South Wales problem; it's not an Australian problem; it's a global problem.

What was interesting last week when I was writing about this was that I was doing some searches to work out how much they offshore. Your big four now offshore to India; it could be up to 20 per cent of their workforce is in India now. They've got whole suburbs full of Indian kids, I assume, doing audit work, with no quality control. We're not quite sure what the quality control would be. The partners themselves are hardly working on an audit. So we've got the case of Clarendon in the UK, the building company that collapsed. I think that was \$100 billion that collapsed. KPMG was sued £1.4 billion and had to pay up and they found in the parliamentary inquiry that the partner spent two hours on the job. That was him reading the report and signing it. He did no other work on that job at all. So we've got this low-balling in auditing, where they low-ball and they put cheap kids on the job. Why do they low-ball? They're after the consulting work. That's where you can charge the partner out at \$5,000 or \$10,000 a day. That's what they're after.

**The CHAIR:** Going the other way as well, we've heard a lot about the idea of auditing being the loss leader, and going in and doing the low-ball work in order for the consultants to come in. Have you seen situations where you get a large company being audited consistently by one particular firm, then doing cheap consulting work? One example I got my hands on was in relation to EY and Santos. EY is the auditor for Santos and EY happened to also do a very cheap piece of work for the New South Wales Government producing the *Future of Gas Statement*, which happened to only allow Santos to do any new gas projects. If EY was here or if any other consulting firm was here, they'd probably say, "Yes, but we've got these integrity walls set up. We don't share that information." What, in practice, stops them from really preferencing the interests of a big major client like that?

**JAMES GUTHRIE:** They have what they call "Chinese walls". Their evidence given in the inquiry in Canberra was that someone had access to confidential information and they put a note on their door saying, "Please, don't talk to me because I've got this," and then that person actually distributed by email to the other side. And he was disciplined. That was one of the only discipline that the big four did. That was the disclosure of information.

**The CHAIR:** So it's one we caught. That's one we know about.

**JAMES GUTHRIE:** Exactly. They just got caught. And once they got caught—well, in the PwC case and the tax scandal, they said it was one bad apple, where I've looked at the emails and they've gone around the world with partnerships. There are PwC partnerships around the world. Of course, they've caught four big American tech companies that changed their tax plans because of the information and they actually had to reverse their structures. I don't know if they ended up paying any tax but they usually don't. But they got caught. So that's gone global now because that's been reported to the public bodies review oversight committee in the US. That was only done—it was done the other day, on 7 July, where it should be have been done in 2014 when the case happened, when it started. But they self-reported to the public bodies overview, which, as I said before, I think that's the only regulative framework that we've got, in terms of oversight of the big four.

**ERIN TWYFORD:** If I can just add, sorry—and this sort of harks back to senator Donnelly's question, too, in dealing with the oligopolies—at the moment what we see are pretty blatant conflicts of interest and we're relying on the self-reporting of these firms. That is just so inadequate. Most of the time they'll come out later and say, "Oh, you know, we weren't aware of the conflict of interest." I am looking at the example that we gave about TEQSA where they had an almost \$8 million interest in one of the colleges that TEQSA was going to advise, and also who was sitting on the board of the top education group: the former PwC chief executive, Tom Seymour, who has now been outed. We can't rely on them to self-report anymore, and that goes back to wanting that public register. There has to be checks with that as well. We can't just take their word for it.

In looking at how do we then differentiate between audit functions and consultancy arms of firms, what we've sort of recommended as well is, instead of having these operational splits where they put the note on the door or they say, "Don't worry. We're not talking to each other", there has to actually be a structural split where they are different entities, they're not known to each other and they're not going to almost cross-contaminate one another. In talking about what sort of incentive is there for them to do the right thing, there is none because they are looking to grow profits because, without profit or without money, they can't continue to grow their business. The only way they make business is through taking on these contracts. They don't own assets. They might have investments but, again, they can only grow by taking on more work, and the only way they can take on more work is by saying "Yes" to everybody. So there is no incentive to sit back and say, "Well, actually, that could be a

conflict. We'll let it go to our leading competitor." I'm not sure how you fix that, but just in terms of what stops them, nothing—unless they fear the wrath of a disciplinary body who doesn't call them out on it.

**The Hon. EMILY SUVAAL:** What would be your top three recommendations for alternatives to the reliance on consultants?

**ERIN TWYFORD:** I think we spoke in the submission that we need to rebuild capacity in the public sector. We've also noted that while there has been an increased reliance on consultancies within the New South Wales Government, there has been increased numbers of public servants, so that just doesn't any sense. It's almost like contracting out work that's supposed to be performed by people in-house. That needs to be looked at and perhaps more investment in those people. I know the Federal Government wants to put together an in-house consultancy group and that's been criticised because they can never match the salaries of what consultants would get. But if you get really good people in, you will still save money because you're not paying all this money for that shadow public service. I think that's number one.

We need the public register of conflicts of interest, and that has to be made really transparent and accessible by every person. It shouldn't just take an academic or a senator to be able to understand that information. The current tendering processes are so opaque it's really difficult to extract any information from it. In terms of the third of the top three, I would probably say that structural split and looking at the structure of the big four. They are ostensibly partnerships but I don't believe that they act like partnerships. I don't there's equal decision-making ability across partners. We have heard evidence in the other inquiry that, realistically, that is not how they operate. I would also look at the Corporations Act, which currently allows 1,000 partners for accounting but only, I think, 200 for lawyers. It just made me query: What's so special about accountants that they get five times as many partners? I don't think there is anything special. I tried to find the *Hansard* on that to understand why that change was made. I think we definitely need to address how many partners, perhaps, we have in a big four.

**JAMES GUTHRIE:** And on transparency, they're required to produce a transparency report. I've done a study where I've looked at 15 years of them. These are really good marketing documents, but they have little information content that really matters. It says, "What's your partner's salary?" What they do is say, "We report one for everyone." "What's your remuneration on retirement?" "We remunerate our partners on retirement"—nothing; no numbers, nothing. When you read the document, it's really selling more of the same. It's not a transparency report, even to find the revenues. You can find the revenues in that some external bodies collect revenues, so you can find its gross, but it's very hard to find what revenues come from auditing, what comes from consulting and what comes from tax advice. There's no breaking down of those sorts of figures. It's just the consolidated view, which is against Corporations Act and all that sort of stuff, but they don't have to sit under the Corporations Act.

**The Hon. SCOTT FARLOW:** I just want to turn to some of the things in New South Wales. We can have a broad conversation when it comes to consultants but from the New South Wales Government perspective, like what can be done in New South Wales. One of your recommendations is a much more significant role for the New South Wales Audit Office and the New South Wales Auditor-General to provide oversight. How would you see this operating and what do you see as the limits on the Auditor-General at present?

**JAMES GUTHRIE:** I can answer that one. I did some research with Des Pearson—he was the Victorian Auditor-General—on PPPs, or public-private partnerships. We did a fair bit of work about how we can bolster the Auditor-General's office. There's something very simple; it's called "follow the money". That just means the Auditor-General has power to go and look at the quality of work of a consulting contract and the quality of advice. At the moment, the Auditor-General cannot step outside the public service. The Auditor-General in your transport case—I heard a little rumour about your transport case. There were two documents produced by KPMG. One valued the holding at \$40 billion, and the other one, at \$20 billion. The reason they had to get it to \$20 billion was to get the rate of return, and if you get a rate of return then it was called a "commercial organisation", not a "public organisation", which is in accounting talk.

I heard the Auditor-General was not able to access those documents of KPMG. If you read the fine print, they say, "This is the stuff we looked at," and there's a little footnote saying, "We weren't able to actually see how they arrived at those numbers." To me, that is stupid. The Auditor-General should be able to look at something like that, which is consulting advice and a \$20 billion difference in valuation, and work out what's going on. You might hear from an ex-KPMG partner; I'm not quite sure. I don't know if he has put a submission in.

**The Hon. SCOTT FARLOW:** He might have walked in the room.

**JAMES GUTHRIE:** He's behind us, is he?

**The Hon. SCOTT FARLOW:** He is. It's like a pantomime now. He's behind you!



**JAMES GUTHRIE:** His evidence to the inquiry in Canberra was very good on this matter.

**The Hon. SCOTT FARLOW:** Just on that point, in terms of some of the assertions—and with full disclosure, I was on that inquiry before, into TAHE, so I've lived a bit of it. The figure twiggged me. I noticed in your submission the statement that there was \$30 million that KPMG received for establishing TAHE, and that twiggged as not according with my memory. I just wanted to see where that figure comes from and if there's anything further, because it doesn't seem to accord with—

**JAMES GUTHRIE:** That came from an Auditor-General's report.

**The Hon. SCOTT FARLOW:** Whereabouts? Because the Auditor-General's report, from having a look, said that there was a total final cost of \$22.56 million for the consultants, of which—I think they outlined that it was \$2.5 million from Treasury and \$900,000 from Transport.

**JAMES GUTHRIE:** Yes, on page 3. That's where I've calculated it.

**The Hon. SCOTT FARLOW:** Where's that from?

**JAMES GUTHRIE:** At page 3.

**The Hon. SCOTT FARLOW:** In the TAHE one?

**JAMES GUTHRIE:** Yes. I can take a question on notice.

**The Hon. SCOTT FARLOW:** Yes, take that question on notice if you can.

**JAMES GUTHRIE:** Yes. I will check my calculations.

**The Hon. SCOTT FARLOW:** Because it doesn't accord with my memory, which twiggged it, but also in further reading of the report as to where that figure came from.

**JAMES GUTHRIE:** I might have to get an auditor to come and check my—

**The Hon. SCOTT FARLOW:** Maybe.

**The Hon. GREG DONNELLY:** Could you tell us who your auditor is? Because we might have some business.

**The Hon. SCOTT FARLOW:** If I could go back to the questions regarding the statement made in terms of how consulting firms address their conflicts of interest, in the past there has been some precedent when it comes to tax advice and audit advice that consulting firms don't do both for certain companies. Do you see any models from what was implemented there that could be used, potentially, as a way into the future that we could treat where conflicts may arise?

**JAMES GUTHRIE:** So that's an organisational thing. You're talking about trying to set up some structures and some rules around what services they can provide. I was really surprised how many different types of services they provide to the New South Wales public sector. They just don't provide tax advice, accounting advice, auditing advice but they provide—well, you found out in your health boards, all the work they did in the health boards: the tendering, the setting up of tenderings, all the economic analysis.

So I'm not quite sure how you get around this because they've got so big and they offer so many different services. I'm not quite sure how you would get around it other than a conflict of interest, "If you provide a service to Transport, you should not provide another service to Transport", in the sense of if they provide accounting advice or structural, legal advice—because they provide legal advice too. Somehow in the tender process it has got to be tied down. The other thing we noticed in Canberra, the tender process, they come in, they low-ball, and then they get extension after extension after extension after extension. In the tax, it was half a billion dollars worth of ATO—half a billion dollars of extensions on one project.

**The Hon. GREG DONNELLY:** Sorry, what do you mean by half a billion dollars of extensions? I don't quite understand.

**JAMES GUTHRIE:** Okay. So you come in and they said, "The project's \$100 million in the ATO."

**The Hon. GREG DONNELLY:** So it's just added on.

**JAMES GUTHRIE:** They just keep adding on because they haven't completed the work.

**The Hon. SCOTT FARLOW:** You made the point as well in terms of the increasing size of the public sector in New South Wales. When it comes to capacity, in a sense, it doesn't necessarily line up with the argument that effectively the public sector has been starved, so that's why consultants were required. But I guess there has been in recent times more of the dependence on "We have the KPMG report", or "We've got the PwC report."

There is sort of a certain amount of legitimacy which is given to a government action if it has a consultant's report behind it. Is that one of the things that you think is perhaps a challenge now for public servants in being able to prosecute a case if they don't have that sort of external advisory to support their argument, so to speak?

**ERIN TWYFORD:** Yes. I think they do use it as a form of legitimacy and also as almost a protection, because, if they're putting that advice forward, "Well, it's not really my advice. It's their advice. So we rely on that. If anything goes wrong, we can go back and sort of blame them instead of me, the individual", probably because of the type of punishment that they might face versus if a big four makes the wrong choice we've seen—I mean, PwC is getting raked over the coals but, really, not a lot happens to the people within those firms and the firms continue on, and they still get government work. So I would say that it is part of a protective measure so that it doesn't fall back on the individual in the public service.

**The Hon. GREG DONNELLY:** Could I ask Professor Dumay if you've got any particular observations about some of what we've been covering this morning or some additional points to elucidate.

**JOHN DUMAY:** My area really is in this kind of capacity building. So my area of expertise is knowledge management and intellectual capital. I actually was a consultant at one time too before I became an academic. I mainly consulted with small businesses; I did work with some fairly large listed firms and that. I guess the ideology that I had as a consultant was to leave the knowledge or the capacity in the business to actually do something. So one of the things that I think is really, really important that we need to do is understand that these consulting jobs are not just to give advice. It's also part of learning, part of the learning organisation, and we're not seeing this. If you're just kind of going, "Okay, we'll bring in outside expertise", then we're admitting we don't have that kind of expertise in our own government, and this is the whittling down of the public sector.

We need to build capacity. We need to have those internal resources and capacities within the Government to do this. This is a function of Executive Government, and now what we're doing is subcontracting the function of Executive Government out to the big firms. That's not the way it's supposed to work. We're supposed to have an independent body to make sure that we have the checks and balances within our legal system in order to make sure that the thing functions correctly. Now, we just had yesterday in the newspaper, with the ATO and the PwC coming together and making an arrangement back in March. At the same time, they're not disclosing it because, again, it's untransparent—they're not actually disclosing that this arrangement was done because of the tax scandal. And yet, the head of the ATO was saying in the newspaper, "Well, we were aware of it and we did discuss it with the Federal police back in 2019, but we didn't have enough information so we didn't do anything about it." Isn't that the job of Executive Government—to actually go out and find that information, thank you very much?

I think that's part of the problem. We've got people sitting in the public sector who, as they say, may be scared of giving an opinion. They may be scared of what's going to happen if something goes wrong with that opinion—"I might get crucified in the press", or whatever else. But if we have competent people and if we hire competent people and we bring them in with the requisite skills to do these jobs—and, yes, we need to pay them the correct amount of money—that's good. But then you had the head of PwC, I think, in the inquiry—you know, he gets paid, I think it was 13 times the salary of the Prime Minister. How do you justify it? I'm sure we can hire very competent people to be there. We have a bit of a brain drain and we've got lots of—we don't have so much unemployment at the moment and there's a shortage of accountants and so forth, which makes it even more important to develop those skills internally to make sure that we have those skills. That's future planning.

Part of my PhD research was working with the NSW Department of Lands. That was a really interesting project. I think we wrote about 12 papers out of that project. It was all about capacity building. We had this issue that people were retiring and we had to renew the organisation. Now, the people who were in the organisation—it's the time with computers and everything coming in—they didn't want to know about it. They had to get themselves a computer driver's licence to keep themselves employed. But, at the end of the day, we worked with them. We actually helped them develop their capacities. We helped digitise. We helped make things more efficient, and so forth. If we don't do that, it is like a bathtub or a pond. If you don't keep putting fresh water in it and it stagnates, it's not going anywhere.

**The CHAIR:** We have Chartered Accountants ANZ coming to present to us in a little while. I understand that consultants enjoy special protections when it comes to having their liability capped under that organisation's scheme. I don't want to pronounce it wrong, but I think people call them CA ANZ.

**JOHN DUMAY:** CA ANZ—we call them "cans".

**The CHAIR:** That's more Australian. That CA ANZ scheme limits their liability. I understand there is New South Wales legislation that sets that in place, that is then replicated in the other States, and it is up for review next year. Do you have a view on that legislation and that liability scheme, on what we might be doing or what we should be doing going forward with that?

**JAMES GUTHRIE:** This was debated in the Senate inquiry and I got a bit confused because the Deloitte man took Brendan on and said he's wrong in terms of capping. He said, "As a partner, we've got liability of \$70 million." I couldn't work it out, because I read the other material. It was capped at \$10 million, I think.

**The CHAIR:** That is certainly what their guidelines say.

**JAMES GUTHRIE:** Yes. But I'd have to wait for Hansard to come out to see what the \$70 million is. See, what's happening now—in the good old days when I was an auditor, last century, the liquidator would actually sue the auditor, so there was a bit of risk involved there. That seems to have gone out of fashion now. Maybe because the liquidators work in the big four, they don't seem to be doing that way of getting money back from liquidations. The UK case, that was the government liquidator. What happened in the UK case, no-one was willing to take the liquidation on because there was no money in the firm, so the government threw £100 million in to get some liquidations going and the government liquidator decided to sue KPMG, not private liquidators. So that's changed over the last three decades.

**The CHAIR:** Unfortunately, we've run out of time. We are five minutes over. I could keep going, though, for several hours. Maybe I will send you some supplementary questions. Thank you so much for attending. To the extent that you took questions on notice or there will be supplementary questions, you will have 21 days to return them. The Committee secretariat will be in touch in relation to that. Thank you very much.

**(The witnesses withdrew.)**

**(Luncheon adjournment)**

**Ms VANESSA CHAPMAN**, Group Executive, General Counsel and Corporate Assurance, Chartered Accountants Australia and New Zealand, sworn and examined

**Ms KRISTEN WYDELL**, General Manager – Professional Standards, Chartered Accountants Australia and New Zealand, sworn and examined

**The CHAIR:** I now welcome our next witnesses from Chartered Accountants Australia and New Zealand. Would you like to start by making a short opening statement?

**VANESSA CHAPMAN:** I would, thank you, Chair. First, we thank the Committee for this opportunity to discuss our submission and the role of Chartered Accountants Australia and New Zealand, and of professional associations generally, in government procurement and oversight frameworks. I am the general counsel and the group executive for corporate assurance with responsibility for oversight of professional standards and conduct. Kristen Wydell, my colleague, is the general manager for professional standards.

Chartered Accountants Australia and New Zealand—or CA ANZ, as we like to be sometimes called—fulfils multiple, equally important roles. First, we're a membership body. Membership facilitates access to professional resources, support and community for our members. Second, we're the only professional accounting organisation approved as a higher education provider under the Commonwealth Tertiary Education Quality and Standards Agency regime. Third, we're an advocate for our members and for the public good. And, finally, through our professional standards and conduct function, we're a professional association with an approved professional standards scheme. We educate our members about the profession's code of ethics and the CA ANZ by-laws, and we monitor compliance.

Our disciplinary bodies are independent of CA ANZ's board and management. Any person can lodge a complaint about a member and all complaints are assessed. A member's place of employment has no bearing on how disciplinary bodies conduct an investigation. Our disciplinary framework meets applicable domestic and international standards and best practice design principles and, as a result of our recent Professional Conduct Framework Review, it is to be further enhanced with additional powers to address misconduct of former members and provisions to more effectively address firm events. Those amendments are to be put to our membership for approval later this year.

Our membership is made up of around 135,000 accounting, finance and affiliated professionals—so, individuals—and around 1,400 practice entities, that is, companies and firms, through which our members offer services to the public. Individual members comprise sole practitioners, individuals who work in small, medium-sized or large firms, employees in government, in business, in finance, strategy or other roles, individuals who operate as independent contractors, and academics across the education sector. Around 10 per cent of our individual members work at large, multidisciplinary firms. All partners of the large firms—the big four—are our members, many of those being consultants providing services to government. They are all required to complete mandatory ethics training and are subject to our complaints process. There is no doubt that oversight of consulting is fragmented. Consultants to government who are not members of any professional association may have internal policies and codes of conduct, and they may also subscribe to the government supplier code of conduct, but they may not be subject to any independent oversight or enforcement of ethical behaviour.

We have four suggestions: one, that the New South Wales Government implement the recommendations made by the New South Wales Auditor-General in full, including those relating to enhanced procurement and project management practices; two, that agencies should consider carefully the selection criteria for material engagements and consider whether membership of a professional association is a minimum requirement; three, that agencies should consider implementing contractual mechanisms, such as requiring firms or lead engagement partners to notify the agency if they or other key personnel are the subject of a professional disciplinary investigation, which could trigger review rights under the contract with the agency; four, for NSW Procurement to consider including referral to professional associations as a potential outcome of a code breach under the New South Wales supplier code of conduct. CA ANZ welcomes the opportunity to work with governments, our profession and other stakeholders to develop solutions. We now welcome your questions and the opportunity to clarify any of our statements.

**The CHAIR:** Thank you very much, and thank you for your submission and for attending today. A number of us were involved in the Public Accountability Committee, as it then was, inquiry into the Transport Asset Holding Entity. As you would be aware, there was a finding in that inquiry that it was inappropriate for NSW Treasury to provide instructions and act in relation to KPMG in certain ways, including in relation to certain partners. There were also a number of quite concerning allegations and assertions that were raised and a number of important findings made in that report, which I understand has led now to KPMG accepting some public responsibility for the failings in that process. Have you begun an investigation into that matter? If so, who is the

subject of that investigation? Is it KPMG itself or particular people? Any information you could give me would be much appreciated.

**VANESSA CHAPMAN:** Certainly. I can confirm that we made a public statement to the Senate inquiry. That statement confirms that our Professional Conduct Committee, an investigations committee, initiated some preliminary inquiries in relation to the TAHE matter in late 2021 and an investigation following the conclusion of public hearings and the tabling of the report of the Public Accountability Committee in 2022. That investigation is ongoing. Under our by-laws, PCC investigations are confidential. The reason for confidentiality is that whilst there is an investigation underway, and prior to any findings being made, there is a real risk of harm and reputational damage to any individuals who may be involved. Pending the conclusion of the PCC investigation, CA ANZ is precluded by the by-laws from making public statements which would undermine or prejudice that PCC investigation.

**The CHAIR:** Just so I'm clear, when you say that investigation has commenced—just for someone who doesn't understand how those inquiries are normally run. In a professional conduct inquiry, are there particular people appointed to investigate? Is there a time line? Are there terms of reference? What happens around the process?

**The Hon. Dr SARAH KAINE:** Chair, could I ask a supplementary question? In your submission, you have a table which shows what your PCC does and what your disciplinary tribunal does. If I could just add to the Chair's question, why the PCC and not the disciplinary tribunal? The PCC seems to not be able to bar a member for certain amounts of years et cetera.

**The CHAIR:** Good question, thank you.

**VANESSA CHAPMAN:** Our system, our framework and the design of the framework is very consistent with similar professional bodies. The investigation and prosecutorial functions are undertaken by the PCC. Serious matters that go to the disciplinary tribunal are disciplinary findings, and the PCC prosecutes matters at the disciplinary tribunal. In many ways, it's very similar to an almost European approach to truth finding and inquiry. So the PCC undertakes an investigation that typically takes about four to six months, which then is determining questions of fact, looking at evidence and making inquiries as it sees fit. To answer your question, Chair, about the committees, the functions and how they're designed, under our by-laws, the PCC, the DT—the disciplinary tribunal—and the appeals tribunal are permanent bodies of the organisation, completely independent of our staff.

The professional conduct committee is empanelled as a minimum of three members—two who are senior members from the profession who understand the technical and/or other contextual arrangements or the context of a particular complaint, and a layperson who brings a public interest perspective. On our current PCC panel, we have ethicists, lawyers and a range of other non-accountants who bring a different perspective. In the course of a PCC investigation, the PCC will meet multiple times to consider information, publicly available information and reports. A range of sources of information will be considered and they'll make a decision about how they want to proceed and whether there is anything of interest.

**The CHAIR:** And then it goes to the DT? Is that the idea?

**VANESSA CHAPMAN:** It may do. In the normal course of an investigation—bear in mind that when matters are referred to the disciplinary tribunal, it's in relation to a specific member. When the PCC forms the view that there is a case, has adequate evidence and is satisfied that, on the evidence, a decision could be made, they may refer the matter to the disciplinary tribunal. At that point, that disciplinary tribunal hearing is scheduled. It's a public hearing; members of the public may attend. It is subject, of course, to certain confidentiality provisions around reporting publicly because of appeal rights that are available to the member in that context, but that is a separate process at that point.

**The CHAIR:** In this particular case, with respect, this Committee did a lot of the work already in relation to what went wrong at KPMG when it came to the TAHE matter. There was a huge amount of evidence provided to this Committee. You've just told us that normally one of these inquiries takes four to six months. This one has been going since late 2021. This seems longer than the amount of time it took ICAC to look into the Berejiklian matter. This is quite a long period of time before we have got a finding out of the PCC. Why is it taking so long?

**VANESSA CHAPMAN:** Again, I can't comment on detail because I'm not privy to the deliberations of the PCC; however, I would observe that there are a number of other inquiries that have been held. The Auditor-General's report in, I think, February this year—

**The CHAIR:** March.

**VANESSA CHAPMAN:** March—and the ICAC findings, as well, have been of interest.

**The CHAIR:** There was some serious wrongdoing that this Committee found. When I heard that inquiry had been commenced by CA ANZ, I felt that it was being taken seriously and you were doing something about it. There is nobody else, as I understand it, who can look into this matter. Meanwhile, KPMG is still getting government work and still doing everything that it has always done. Do you think that this is an acceptable period of time for an investigation of this nature to take?

**VANESSA CHAPMAN:** In any given year, we receive about 250 complaints in Australia and, across Australia and New Zealand, 400 in total. Of those 250 complaints, most are resolved within, as I said, nine months. At the moment there are only 14 complaints or matters, investigations, that have been on foot for more than 12 months. As a general principle, in matters that we've initiated, or where the PCC has initiated an investigation of its own volition, it can set its own time frames and timetable. Obviously, as I said before, in terms of the consideration of information and new information and making inquiries, it forms its own view about what inquiries it wishes to make and then to consider that information.

**The CHAIR:** Did the CA ANZ board instruct the PCC to do this or did the PCC do it of its own accord?

**VANESSA CHAPMAN:** The PCC did this of their own accord.

**The CHAIR:** Does the board have any oversight of how long processes are taking?

**VANESSA CHAPMAN:** Yes, in a way. The professional conduct oversight committee is another independent body which oversees the performance of the disciplinary bodies. The key metrics, the key measures of performance that the PCOC examines are the time taken from initiation of complaint through to resolution.

**The CHAIR:** I understand from the Senate evidence that the PCC has still not even spoken with former KPMG partner Brendan Lyon. Again, this has been running now for almost two years. Do you think that anything has actually been done with this inquiry, or was it just started but it's just waiting to actually commence in full? What assurance are you given that there is actually an inquiry on foot, as opposed to an inquiry having just been referred, to be dealt with eventually?

**VANESSA CHAPMAN:** The instructions that I'm given by the conduct staff regularly, in terms of updates, are at the process level—"This is where things are up to." I don't have insight or, in particular, any intelligence about specifics because, as I said, the PCC investigation process is confidential.

**The CHAIR:** Can you provide this Committee on a confidential basis with more information—not in the context of this hearing but, on notice, information on exactly what is happening with that inquiry? You can understand that, from our perspective, we have heard a lot of assurances from the big four. We are looking to you to give us some assurance that there is actually a regulatory regime in place that investigates and takes action. Are you able to give this Committee, on notice, on a confidential basis, details about what has actually happened with that investigation?

**VANESSA CHAPMAN:** Yes, I can do that.

**The CHAIR:** In terms of the structure of CA ANZ, who sits on the board? You said you've got—I forget how many—members and all partners of the big four are members. Is that correct?

**VANESSA CHAPMAN:** No, that is not correct.

**The CHAIR:** Sorry, can you explain again the membership of CA ANZ and who sits on the board and how they get elected?

**VANESSA CHAPMAN:** The structure of the board is determined by our by-laws. We have a separate council. The council is made up of representatives of members from across the various regions. We have appointed council members from each of the States of Australia, from four of the regions in New Zealand, from some of our Asian regions and one "rest of world", which covers the UK and the United States. The council is the body which has authority to appoint directors to the board, on recommendation from a nominations and governance committee, which is entirely independent. It's made up of three independent members.

The current composition of the board is such that there are two directors who have an affiliation to large firms. One is an auditor; another is a senior director. The remaining member directors, those who've come from an accounting background, come from a variety of backgrounds—from business, from small, sole practitioners. Then we have two independent directors who are from outside of accounting—completely independent.

**The CHAIR:** So of the two that you said are connected to the big firms, is there someone from KPMG on the board?

**VANESSA CHAPMAN:** Yes, there is.

**The CHAIR:** Who is that?

**VANESSA CHAPMAN:** That is Penny Stragalinos.

**The CHAIR:** Who was the other person that you mentioned?

**VANESSA CHAPMAN:** Tinashe Kamangira from Deloitte.

**The CHAIR:** Has CA ANZ struck off any partner from the big four in the last seven years?

**VANESSA CHAPMAN:** There are currently nine disciplinary decisions on our disciplinary decisions register that relate to either employees or partners from the big four. The number of those which resulted in suspension or termination I believe are two struck off and two suspended.

**The Hon. Dr SARAH KAINE:** Could I ask a further question about the sanctions, but it also goes back to my question about the PCC and the disciplinary tribunal. I'm not sure that I'm still entirely clear, and it goes a little bit to how opaque the process appears to be. The PCC can refer matters to itself but it can then also say, "This goes on to the disciplinary tribunal." But it also can sanction. I'm interested in what the line is between the sanctions that PCC decides to impose itself, because currently we have KPMG still in that process—I guess what the threshold is for disciplinary matters to be taken out of the PCC, which seems to have a list of sanctions it can impose. What is that threshold? The other question related to this is that you mentioned you had 250-odd issues a year that you're investigating. I'd like to know about your triage process—because I imagine KPMG as opposed to Joe Bloggs accountant down the road. How have you triaged that meaning that it has still taken this long? There were two questions there.

**VANESSA CHAPMAN:** I might start with the second question first if that's all right. The triaging process is very important and that is because when matters come to the attention of the PCC that involve real issues of practical harm to consumers or to clients, it must act swiftly. You can appreciate that with a membership of 135,000 members, most of whom take their ethical obligations incredibly seriously, when there is any malfeasance or evidence of deviation from expected norms and standards of behaviour, the PCC will act particularly quickly if there's a real risk of harm to consumers, so fraud, or if there is a risk of defalcation—client moneys, for example, being dissipated. The PCC can act quickly and refer a matter to the disciplinary tribunal for an interim suspension order, and that has happened on a number of occasions. I can provide those details and those numbers. Triage does occur in that context. There's a process by which the conduct team allocate matters between the investigators on that team. Sorry, your first question I've—

**The Hon. Dr SARAH KAINE:** So there was a threshold—

**VANESSA CHAPMAN:** The threshold for referral.

**The Hon. Dr SARAH KAINE:** The PCC—at first when you were explaining it, it sounded like it was the investigative arm that then handed off. But that, according to your table, doesn't seem to be the case. It seems to be able to decide whether it issues a sanction or whether it sends it up. I wondered what those thresholds were.

**VANESSA CHAPMAN:** In that regard as part of the disciplinary process, it's going through an assessment and determining whether a matter can be resolved by consent. It cannot issue sanctions of its own volition. It's not a decision-maker. It is entirely investigative and prosecutorial but, like any investigative function, if a matter doesn't warrant suspension or termination of the member—if it's not serious enough to require suspension or termination—then the PCC may offer a consent order agreement to the member as a way of expediting or expeditiously resolving a matter. Under those sorts of consent order agreements, publicity orders and confidentiality provisions may be waived.

**The Hon. Dr SARAH KAINE:** Might I make a suggestion that the submission might need to be reconsidered—

**VANESSA CHAPMAN:** Clarified.

**The Hon. Dr SARAH KAINE:** —because there is a table which lists your three committees and then lists the sanctions that they can impose and has ticks next to them. You can understand my misunderstanding about whether that can be imposed by that committee.

**KRISTEN WYDELL:** Sorry, can I just jump in one moment. The PCC does have an investigative function and to a certain point in accordance with the by-laws it can impose sanctions. There's a threshold, and I was trying to find it in our by-laws where it gives the reference. It's a combination of whether the sanction is outside of the scope of the PCC—or if it is of public interest, it's referred through to the DT. There's a sort of passageway. Everything must come through the PCC to the DT and then to the AT. Does that help clarify the question? It's the public interest test.

**The Hon. Dr SARAH KAINE:** I'm not clear on the thresholds but perhaps on notice you might be able to provide that information which would clarify that and maybe a reframing of that table.

**The CHAIR:** Could I just hop back in on that bit? You were saying that you can have a consent order made. When I asked you before how many partners have been struck off, is that being struck off because there was no consent order or is that a—

**VANESSA CHAPMAN:** It would have been because there was a referral through to the disciplinary tribunal. Just to clarify, Dr Kaine, footnote 16 on that table—I know, footnotes are not ideal but the PCC can only impose those disciplinary sanctions via orders. In the absence of an agreed order, those sanctions can only be imposed by the disciplinary tribunal. So there are processes—it's intended to expedite the resolution of matters that are fairly straightforward. There's no removal of the member under those consent order agreements, and that is appropriate because removal of the member from the body is considered to be the most serious sanction that can be imposed on a member. All of these orders, all of these sanctions, are potentially reportable by members to external regulators or agencies. They may also be reportable to insurers under the terms of professional indemnity policies. There are a range of notifications which a member might need to make, depending on their practice and what else they might—

**The Hon. Dr SARAH KAINE:** Can I ask a question related to that, and it goes to the types of members that you have. You've said that 10 per cent of your membership is in that sort of consultancy field, and we have had submissions which have talked about the ambiguity about professional associations for consultants, where they might fit and whether there are any actual standards that do apply. If you're suggesting that part of your processes might be, or that there are other requirements for other regulators to be informed—who would you inform? What regulator would you inform if you found that a consultant didn't fit into your other categories of members? Where would that go?

**KRISTEN WYDELL:** Nowhere.

**VANESSA CHAPMAN:** It depends on what the consultant's other obligations might be. For example, if we had a member who is a partner in a firm and they are also a legal practitioner, then the Law Society may be a regulator or a professional body that could be informed of an outcome.

**The Hon. Dr SARAH KAINE:** But that's only if they were captured by some other professional body?

**VANESSA CHAPMAN:** Correct.

**The Hon. Dr SARAH KAINE:** In essence, there is a gap for those who aren't captured by other standards?

**VANESSA CHAPMAN:** Correct, and that goes to the point in our opening statement that there is some fragmentation and there are also just gaps. There will be some consultants who, by virtue of not having a professional discipline, may not be captured by any external oversight. In that situation, the only real power the government agency has is through the procurement framework and the supplier code of conduct.

**The CHAIR:** Can I just cover off on the TAHE and then I'll pass over to my colleague Mr Farlow. Come back to the very serious matters that were covered in this Committee's TAHE inquiry that looked at the behaviour and what appears, on the face of it, to be quite a lot of misconduct on the part of KPMG, to which KPMG have admitted they made mistakes. We are almost two years down the track. My understanding from what you're now saying is that some of the disciplinary action that might be taken is that partners involved might have some recommendations made that they would be struck off or there would be some serious repercussions for them. Is that correct? We're kind of sitting and waiting to see whether or not those partners are going to have that level of consequence taken against them?

**VANESSA CHAPMAN:** Again, rather than speaking about the matter in particular, in general, when the PCC becomes aware of a very high profile matter as that one was and where there is a lot of material, a high volume of material, it has to be assessed. It has to be considered to determine, first of all, to what extent any of the material indicates or constitutes a prima facie case.

**The CHAIR:** When I look at the New South Wales tender site, we have almost \$1 million of contracts being signed between just New South Wales Transport and KPMG since 23 July. It's just five days ago. We are continuing to put in place contracts with a company that may be found under your processes to have acted in a manner not befitting of that entity. Are you saying that really the only power we have here is just to not contract with them? Should we be pausing our contracts with KPMG while we await the results of your investigations?

**VANESSA CHAPMAN:** To be very clear, Chair, our process is about our members. Partners of KPMG are our members. KPMG itself, as a firm, is not a member. There is a very important process which New South Wales Government agencies and all agencies ought to be going through with the awards of contracts, particularly



material contracts. My understanding is that the Government's implementation of some of the enhancements to the procurement framework is intended to make those awards much more cohesive, cogent et cetera. It would be on the agencies to make those inquiries of firms. If the agencies wish to take a very prudent approach, that would be open to the agencies to do so.

**The CHAIR:** We're looking at \$20 billion of public money being lost at the hands of one of the big four acting inappropriately. We have an inquiry, the only inquiry we can rely on, being your inquiry you're running, that's now taken well over a year and a half. I'm struggling to understand why it's not being taken as seriously as it should be. You talked about public harm or loss. Loss of \$20 billion to the New South Wales public is pretty significant harm, wouldn't you say?

**VANESSA CHAPMAN:** I certainly don't shy away from the fact that that indirect harm is of significance. There's no doubt about that. Earlier, when I mentioned the triaging system and the imminent harm to consumers, it's predicated on the basis that the PCC will look at individual clients and complainants, often clients who cannot afford to lose any money. So the priority in those cases is to act swiftly. In relation to the PCC investigation of this particular TAHE matter, as I said, this has been a complex matter. Until the PCC has made a decision about how it wants to conclude the matter, I'm unable to give you any more information, other than the confidential information that I've already undertaken to provide.

**The Hon. Dr SARAH KAIN:** Given what you've just described, given the question that the Chair has asked and given the submissions that we've had made to us, that are public, from eminent academics in the field, do you think it's right that there's quite a lot of criticism of self-regulation of the professions in this way? Given that there seem to be very few other avenues to sanction those who are engaged in quite large-scale wrongdoing, I just wanted your comments on what seems to be very legitimate criticism, that self-regulation simply is not enough and is not working.

**VANESSA CHAPMAN:** I might first of all explain that we work within what I would call a co-regulatory framework. There are a number of regulators who have a range of statutory responsibilities in relation to the oversight of consultants. CA ANZ's role, as I said, is to enforce the code of ethics and the CA ANZ by-laws. The CA ANZ by-laws specify that a member can be disciplined for a range of matters, things that have occurred, as well as breaches of the code of ethics. The code of ethics—five fundamental principles: integrity, confidentiality, professional care and skill, professional behaviour, and objectivity. Objectivity goes to conflicts of interest. Objectivity and conflicts of interest are not unlawful or illegal. They occur but they must be managed. The risk or the issue for organisations, professional associations that have an oversight in relation to codes of ethics that include conflicts of interest is to assess and understand to what extent those requirements, those obligations, those ethical duties have been observed or not observed.

**The Hon. SCOTT FARLOW:** To pick up on that complicated regulatory environment, in terms of professional accounting bodies there is CA ANZ but there's also CPA and the Institute of Public Accountants. Is that correct?

**VANESSA CHAPMAN:** That's correct in Australia, yes.

**The Hon. SCOTT FARLOW:** How do you work with those organisations and what is the common set of standards that you might have in place?

**KRISTEN WYDELL:** All accountants in Australia operate under a common set of accounting and auditing standards and code of ethics.

**The Hon. SCOTT FARLOW:** The AASB? Are they still required?

**KRISTEN WYDELL:** So the AASB—

**The Hon. SCOTT FARLOW:** And then, in terms of the code of ethics, what's that come under?

**KRISTEN WYDELL:** The code of ethics is set by the Accounting Professional Ethics Standards Board. All of those are, in turn, based on global standards set by international standard setters. Each of the three bodies have variations in their by-laws, and so forth, but it's the same code of ethics for all accountants in Australia.

**The Hon. SCOTT FARLOW:** So that's uniform?

**KRISTEN WYDELL:** Yes.

**The Hon. SCOTT FARLOW:** Picking up on your statements with respect to partners and the partners who may not be accounting partners or may not be traditionally accountants but are your members, is that similar for the CPA and for the Institute of Public Accountants as well? Do they have that similar membership class?

**VANESSA CHAPMAN:** I don't have any—that's not information that's available to me.

**The Hon. SCOTT FARLOW:** Okay. There was a statement you made in terms of partners. I'm not sure if I've got this correct or not, but are all partners of the big four firms required to be members of the CA, or are they required to be members of one of the three associate bodies?

**KRISTEN WYDELL:** One of the three.

**VANESSA CHAPMAN:** It's one of the three.

**The Hon. SCOTT FARLOW:** So it's one of the three associate bodies. Okay, thank you—just for clarification. In a sense, you're here answering questions on behalf of your organisation and accountants, but a lot of the issues we're looking at don't really relate to accountants. Of course, there is an issue that Ms Boyd, the Chair, has raised that may impact accountants, but we're talking about a broader consulting class, many of whom are not accountants. What do you see as the gap, so to speak, in the professional regulatory market that exists for broad consultants who may not be accountants or lawyers, or may not be covered under any other organisation? Do you see there is an opportunity or a requirement that we should have some sort of professional standards board for those individuals?

**VANESSA CHAPMAN:** That's a good question, and I might take it on—actually, I could start to answer it. Lawyers, engineers, accountants, medical professionals—any consultant, for example, within a large firm who has a medical qualification—and some of the health teams do—would be subject, potentially, to a range of professional standards around professional behaviour outside of practice. Historically it's well established that professional standards don't just mean behaviour at work or inside the practice of the profession. It can be broader, encompassing personal behaviour and personal conduct. There would be some consultants, potentially in the technology and IT space—cyber security. To my knowledge, there are some disciplines that are not necessarily professionalised and I am happy to—

**The Hon. SCOTT FARLOW:** Or at least have the requirement. For instance, I think in IT they have the Australian Computer Society or something, but they may not be required to be registered in order to practise yet.

**VANESSA CHAPMAN:** Correct.

**KRISTEN WYDELL:** There's probably two extremes. There are some consultants who have no professional association at all, and then there are others who may have many. They may be lawyers and accountants or they may be lawyers and engineers. We're finding that some have three or four regulators or oversight bodies or associations that are looking at their behaviour and others will have none. So there's an opportunity to maybe look at that.

**The Hon. SCOTT FARLOW:** I imagine with that there is a continuing professional development requirement for each of those as well, which is time and money for all, so looking at another class may be problematic in itself. In terms of those recommendations that you were making to us out of your submission around the referral to professional associations and the potential for the Government to be able to take that step in procurement, how would you see that working?

**VANESSA CHAPMAN:** I would observe that the supplier code of conduct makes it very clear to providers of services to government that in the event of a breach of the code of conduct, the lead partner or the firm—the supplier—may be referred to external agencies. Those external agencies include criminal enforcement. They perhaps include referral for corruption inquiries. Also the contract may be terminated. There's very little in between. It may well be that in terms of an engagement, the agency may not wish to terminate the contract—may be quite comfortable or happy with the contract—but may have some reservations about the team providing services. Referral to a professional body for what may be an ethical failing is an opportunity or an option that should be available to agencies, as it is to any complainant or to any client of a firm or of a service provider.

**The Hon. SCOTT FARLOW:** I don't know if you caught our last witness, but there was some suggestion of cheating on ethics exams from consulting firms. Is that anything you wish to comment on or have any information on at all as to that occurring in Australia?

**VANESSA CHAPMAN:** Certainly the KPMG matter from 2021 raised that as a serious issue for professional accounting organisations around the world, it's fair to say. The PCC did conduct an investigation into that matter, and the submission we made to the Senate inquiry provides a little bit more detail into the PCC's decision-making and process around that particular matter. Since then as an organisation we've been quite considered in our engagement with the firms to understand "What are your policies, what are your procedures and what are you doing when you find any issues?" We continue to make those inquiries. More broadly—and Kristen and I will be able to go into this in more detail probably in a few weeks, when we've had time to finalise our proposals and plans—quality review is a process that we undertake, including in relation to the large firms. There

is an opportunity to consider how that review program could be evolved and expanded to include deeper inquiries into those sorts of matters, including into the efficacy of the existing policies.

**The Hon. SCOTT FARLOW:** Has there been any evidence of that occurring in Australia?

**VANESSA CHAPMAN:** Not to my knowledge. As I said, we write to the firms. We understand their policies. They understand the expectations that CA ANZ has of them when there are matters and issues that arise, and they are expected to support their employees—who are our members—obligations around self-disclosure.

**The CHAIR:** When you look at PwC and its tax scandals, KPMG with the TAHE thing and the ethics exam scandals, Deloitte with its apparent theft of defence information, and EY and its recent cultural review with the Broderick report, there is a lot of scandal going on right now. Do you need something different as a regulator? Do you need more resources? Are you looking for some sort of reform to allow the regulator to more quickly get on top of all of these cascading scandals?

**VANESSA CHAPMAN:** In terms of our framework, the Professional Conduct Framework Review that we've just concluded and the results that we released outline two measures that we believe we need to be more effective. One is to be able to examine former members, absolutely. The second is in relation to operationalising the existing rules that relate to firm events. The firm events provision—it may take some explaining but, under our existing framework, as I said before, members who are partners in firms, where the firm has suffered a firm event, have a responsibility to notify the PCC of that matter and to submit to an examination.

The rules that we currently have are not completely resolved. Some of the rules don't work in the context of a notification of a firm event. The professional conduct framework review proposals relate to streamlining the notification process so that a single partner may make a notification on behalf of all other partners, streamlining the processes by which investigations occur so that single partner can represent all other partners—you can imagine that it would be very practically difficult to have all partners present before the PCC, so having a single-partner representation is helpful—and then, finally, we've proposed a material increase, a significant increase, in the fines that may apply to firm events.

Under our current rule framework, the PCC may agree a fine of up to \$25,000 and the disciplinary tribunal up to \$50,000. That's for individual members, and the proposal that we are taking to our members for approval later in the year is to increase that to \$100,000 at the PCC level and \$250,000 at the disciplinary tribunal level in relation to firm events. This will give those bodies a significant additional sanction to deal with matters which may not be able to be attributed specifically to a partner.

**The Hon. MARK BUTTIGIEG:** Just looking down at the list of sanctions here—and you just touched on some of the fine sanctions—what is the jurisdiction of enforceability if you get a member wanting to go beyond the appeals process? In other words, if I don't agree with the \$50,000 fine, what jurisdiction would that be heard in?

**KRISTEN WYDELL:** Judicial review.

**VANESSA CHAPMAN:** Well, not so much judicial review. A member who disputes a fine, who believes that a fine is unenforceable, could initiate proceedings on the basis that the fine is voidable as a penalty. That would be a course of action that would be open, but the member would have to prove that it's entirely out of proportion to the harm caused by their action.

**The Hon. MARK BUTTIGIEG:** So ultimately, when you join your organisation, you sign up to this.

**VANESSA CHAPMAN:** Correct.

**The Hon. MARK BUTTIGIEG:** Would you have had many cases where these sanctions have been challenged in a court?

**VANESSA CHAPMAN:** I believe 20 years ago there was a case taken on enforceability, and the member in that case was successful because the finding was that there had been a failure to provide natural justice.

**The Hon. Dr SARAH KAINE:** Could I ask a follow-up on a similar issue? I'm just getting my head around your organisation and where it fits. You're both a professional association and a regulator, and you're in competition for membership with other associations who are also professional associations and quasi-regulators. Is there not a conflict of interest in that package that also probably needs to be explained, outlined and considered?

**VANESSA CHAPMAN:** I certainly accept the premise of the question. One of the significant structural approaches that we take to ensure there is no conflict of interest is to have all of the disciplinary decisions made by those independent disciplinary bodies without regard to matters like external time frames or—sorry, without reference to the broader organisational needs or requirements. It's a very incisive single inquiry by a set of

professional disciplinary bodies who have to adhere to the procedural requirements, to the by-laws, and make a decision in a specific way in order for it to be defensible and enforceable.

**The Hon. Dr SARAH KAINE:** Could I ask what your particular value proposition is to an accountant or other potential member that differentiates you from the other professional associations that they could join?

**VANESSA CHAPMAN:** Certainly can. Chartered Accountants Australia and New Zealand has a long and proud history in Australia. By amalgamation with the New Zealand Institute of Chartered Accountants in 2014-15, we brought together those two bodies, both of which have long and proud histories. Being a chartered accountant brings with it a certain reputation, and it's a mark of quality. It's a rigorous program. Our Graduate Diploma of Chartered Accounting is a rigorous program of education that's highly regarded in the marketplace and by employers. Our market and value proposition is to attract the best and brightest accounting and business and financial graduates and to train them and ensure that they are able to go out into business and to work and, to use our very carefully constructed line, make a difference in the communities in which they work and live.

**The Hon. SCOTT FARLOW:** If I can just interrupt, because it might be helpful, it's not just a matter of choice, is it? You have to do a certain assessment, don't you, to become a chartered accountant or a CPA or the like, just by way of reference?

**VANESSA CHAPMAN:** Correct. Each of the professional associations have entry-level exams.

**The Hon. Dr SARAH KAINE:** Yes, I was going to say, each one would have similar—

**The Hon. SCOTT FARLOW:** I think there's actually a variance, to be frank.

**VANESSA CHAPMAN:** They do vary a lot.

**KRISTEN WYDELL:** Ours is actually a graduate diploma; the other two aren't recognised as such. That said, after an extended period of time, a chartered accountant can have membership of CPA and vice versa. But it's after, I think, 10 years of membership.

**The CHAIR:** From an outsider's perspective, at least when it comes to things like TAHE and KPMG, it doesn't look like the disciplinary function of your organisation is particularly effective. Is there a risk that if you made a more effective disciplinary process, you would lose members?

**VANESSA CHAPMAN:** On the contrary, the strong messaging we get from our members is that they appreciate and want to see the disciplinary process at work. One of the reasons we've made quite a number of statements around the PwC tax matter is to ensure that our members understand what is happening. To the premise of your question "Would members leave if the disciplinary process were more rigorous?", that's not my view.

**The Hon. MARK BUTTIGIEG:** With all due respect—and the Chair has pointed this out before—the PwC matter and the KPMG matter were largely by-products of a parliamentary committee process and whistleblowers. It wasn't generic or incipient in and of the associations bringing it to light. So wouldn't a public perception be created that people are joining these organisations because they want advocacy and they want to keep up with the latest tax laws or whatever and they are probably going to downplay disciplinary because "I'm paying them to be a member"? The perception that has been created by virtue of what has happened is that it's just dysfunctional and the Government should actually step in and directly regulate. Can you see that? That's the message we're getting as parliamentarians. The perception is certainly being created.

**VANESSA CHAPMAN:** I can appreciate that. I think the important thing to bear in mind about the PwC matter is that it was the TPB orders that were published in January which brought the matter to light. And, of course, the publication of those orders was acted upon, including by a number of journalists who have done an exceptional job in bringing a number of things to surface. From my perspective, on the day of the TPB order publication, when Chartered Accountants Australia and New Zealand became aware of the orders, the PCC file was opened and the matter was initiated and an investigation was commenced.

To the point that you make about "Does there need to be a single government agency that regulates ethics?", that is ultimately a matter for government. How that works with State and Federal would need to be determined. But best-practice regulation would require there to be a fairly considered and thoughtful consideration of how that would apply across a range of different professions and how it would potentially intersect with all of the different statutory arrangements that already exist.

**KRISTEN WYDELL:** Just one other point on that, to bring another light to it, during the course of last year we actually investigated and concluded 416 professional conduct matters. There are other ones that are in the profile at the moment that are taking a long time. But please don't forget there were 416 other instances where members were investigated and concluded and held to account.

**The CHAIR:** You said before, though—and just to clarify, I understand that in a previous answer there was reference made to the review of the remit of the PCC and some other rules coming up and that there was a suggestion that former members be caught by that. Does that mean that if I'm a member of CA ANZ and then you seek to investigate me for disciplinary action, if I withdraw my membership and I'm no longer a member, then you can't investigate me?

**VANESSA CHAPMAN:** Currently, if we're aware that a member may be subject to a disciplinary examination, we can stop the member from resigning, so we do have a process. The process of resignation is the member offers to resign and that resignation is accepted. So to the extent that there is a—

**The CHAIR:** "I'd better resign before you find out."

**VANESSA CHAPMAN:** Which is why we are very motivated to resolve that and to have a former member jurisdiction, as we have in the New Zealand context. Our New Zealand members are subject to a former member jurisdiction.

**The Hon. SCOTT FARLOW:** Sorry, just leading on from that question, though, is there any interoperability between yourselves, the CPA and the IPA when it comes to something like that? If you're made aware of a member who might have a complaint, they have resigned from your membership but have moved to CPA or IPA or the like, is there some sort of referral process that exists there?

**VANESSA CHAPMAN:** There is a power under the by-laws for the PCC to notify another professional body of a finding.

**The Hon. SCOTT FARLOW:** But not necessarily an allegation. Is that right?

**VANESSA CHAPMAN:** Not necessarily an allegation.

**The CHAIR:** I do apologise and thank you for staying a little bit later than we had planned, but I just want to finally ask you about your statement on the EY Broderick review. The last paragraph of that statement reads, "This is a collective challenge, and only a collective response will be enough to create change." With respect, that implies that either you're not seeing the EY situation as being significantly serious, or you see that these same problems are spread across the entirety of the big four, and that is also very concerning. Do you stand by that statement?

**VANESSA CHAPMAN:** Chair, we do, and we stand by the statement for the reasons that Elizabeth Broderick gives in her report, which is that there's nothing particularly unique about EY versus other professional services firms across Australia. These are issues around racism, bullying and sexual harassment. There's nothing to indicate that it is not something that would be of equal import to other large firms. The risk of saying it's just confined to EY is that we don't take it seriously enough and, I think, as a professional association, one of our very strong messages to our profession over the last few years has been take diversity, equity and inclusion seriously and to take safe workplaces seriously. These are not negotiable.

**The CHAIR:** There is also a risk, though, isn't there, that if we don't look at findings like this in that sort of micro-specific way, then we do, I guess, run the risk of saying, "Well, this is just society-wide." The fact is that we found in this Broderick report—it is quite shocking, some of those findings. Some of them appear to be, at least compared to some other parts of society, a bit worse than EY than other places. I don't know if the other big four have done a similar type of review. But what are you doing as the regulator to check that, firstly, it's not the same at the others, but in either case to make sure that the profession that you are regulating is actually setting the standard?

**VANESSA CHAPMAN:** At this stage, the report having just been published yesterday, we are still working through the report in detail to understand the implications and understand the extent of the inquiry that we might make as a professional association. I would expect that there will be serious introspection at EY and the implementation of the pilot programs will be hopefully used in a way to communicate learnings more broadly across the sector. We are one of many organisations that will be taking a very close look at what happens out of this review, particularly as it relates to safe workplaces, and I would imagine that we'll have more to say once we've had a chance to properly digest all of the detail in this report. But certainly we agree it is concerning. It's tragic, and the learnings need to be taken on board by all large professional services firms.

**The CHAIR:** I do appreciate you spending this extra time with us. Thank you very much for answering all of our questions. To the extent that questions were taken on notice or that there are supplementary questions, you'll have 21 days to respond, and the Committee secretariat will be in touch to discuss that. That takes us to a break. We will be back at 3.30 p.m.

**(The witnesses withdrew.)**

**(Short adjournment)**

**Mr BILL BROWNE**, Director, Democracy and Accountability Program, Australia Institute, before the Committee via videoconference, affirmed and examined

**Mr ROD CAMPBELL**, Research Director, Australia Institute, before the Committee via videoconference, affirmed and examined

**The CHAIR:** I now welcome our next witnesses, from the Australia Institute, who are appearing via videoconference. I will just note for the benefit of our witnesses that the audio is certainly much clearer when you are looking upwards at the screen for some reason, so that's just a tip.

**The Hon. Dr SARAH KAINE:** I didn't know if this was appropriate but, given the types of things we've been talking about, I should declare that for a period of some years I was on the board of the Centre for Future Work, which is associated with the Australia Institute. I just want that on the record.

**The CHAIR:** Thank you. The more disclosure the better, I say, in all things. Would you like to begin by making a short opening statement?

**BILL BROWNE:** Yes. Thank you for having us here today. Multiple scandals involving PwC have shone a light on the heavy use that governments make of consulting firms. This dependency is not limited to one level of government or one side of politics. The overuse of consulting firms undermines public service capacity because, first, using consultants for work public servants could do stops public servants from developing those skills; two, public servants who don't have the skill to do the government work also don't have the skill to tender for consultants to do that work; three, consultants become embedded and can lock agencies and departments into proprietary or arcane systems or processes; and four, the money spent on consultants could hire many more public servants.

Overuse also leads to poor government decision-making because, one, politicians and public servants show consultants a deference that is not always deserved—these are often generalists with an incentive to put in the minimum required effort; two, consultants are sometimes hired to tell the Government what it wants to hear, and sometimes they bury reports the Government doesn't want to see; and, three, consultants have an incentive to favour their own interests and that of their private clients in the advice that they give to governments.

The use of consulting firms by government is not popular. To give two examples, our polling research finds that four in five agree that the public service should have the skill and capacity to do work currently outsourced to consultants, and four in five agree that consultants should be required to answer questions about work commissioned by the Government when called upon by parliamentary and other inquiries. When you're considering where to direct your questions, my expertise is on the general problems governments experience with consulting firms and how change in law and policy could help. I also have more details on the polling research. My colleague Rod has over a decade of experience with the damaging role consulting firms play in the New South Wales planning system and wider mining and energy policy field. He can provide examples of:

One, consultant shopping. For example, New South Wales Planning knowingly appointed an industry-aligned consultant to review controversial projects; two, extensive use of conflicted or potentially conflicted consultants in the planning process; three, a reduction of public service capacity due to over-reliance on consultants; four, consultant assessment being preferred to public service advice—for example, New South Wales Planning and the Planning Assessment Commission accepted consultant advice that the State-owned Cobbora Coal Project was viable, contrary to NSW Treasury advice; five, consultant work being buried—Coal Innovation NSW paid Deloitte around \$330,000 in 2018-19 and 2019-20 for economic assessment of carbon capture and storage potential in New South Wales, which has never been published despite several requests; and, finally, six, the planning department knowingly using inflated consultant reports to mislead the Independent Planning Commission, particularly in relation to the Mangoola/Anvil Hill Coal Mine. Thank you.

**The CHAIR:** Thank you very much. Mr Campbell, did you also want to make a short statement or is this covering for you as well?

**ROD CAMPBELL:** That covers me. I'm happy to take questions. There's quite a bad echo. I'm not quite sure how that might be fixed, but—

**The Hon. SCOTT FARLOW:** If I could just say, when I was Webexing for the last inquiry, I had the same problem. I don't know if that's something generally in terms of the system.

**The CHAIR:** Yes, apologies, because it's fine for us here. I am looking at our tech people to see if there's anything they can do, but in the meantime we will persist. Please let us know if you need us to repeat any of the questions. We will get to some more general questions in a bit, but because we've got the benefit of your expertise,

Mr Campbell, in relation to the New South Wales energy and environment area, I did want to pick up on something mentioned in one of our earlier hearings in relation to the *Future of Gas Statement*.

My understanding is that Ernst and Young had been paid \$67,375 in 2021 to produce that *Future of Gas Statement*, which, I must say, does seem a little bit low for that kind of work compared to the rest of the consulting work we've seen. At the same time, they were the lead auditor for Santos, who, as you are no doubt aware, was the beneficiary of some very nice words said about them in that *Future of Gas Statement*, which effectively green-lit the Narrabri project. What are your comments on that situation? Is that something that you have seen commonly? Does it cause you concern that you've got a consulting arm basically working on a statement that ends up being favourable to a client of the auditing firm? Any reflections on that, I'd be grateful, and any other examples that are similar.

**ROD CAMPBELL:** Absolutely. It's a clear conflict of interest. EY were working not just for Santos; EY have worked for a number of very controversial coal projects in the New South Wales planning system. So to also have them working for the New South Wales Government and for the Government in relation to environment and energy matters seems as clear a conflict of interest as you can imagine. Their work has been controversial. The main economic modeller who works on these issues for Ernst & Young has been described in the Land and Environment Court of New South Wales as inflating numbers for his client. This was in relation to the Rocky Hill matter. Some of his evidence was described by the judge as being contrary to economic theory and, I quote, "plainly wrong". Here is a consultant with a track record of presenting evidence that is plainly wrong on behalf of coal companies to the Land and Environment Court of New South Wales, yet he is being charged with significant modelling assignments that are submitted to the New South Wales planning system and, indeed, his company is hired by the New South Wales planning system. So it seems a proper pickle.

**The CHAIR:** A proper pickle. I think, if we were to put this situation to one of the big four and said, "How can you possibly have the same firm doing work for government in relation to what is going to spell out the future for the gas projects of one of your major clients in audit," they would point at these so-called integrity walls—whatever they're calling them now—and say, "Yes, but the audit function is totally different." Maybe that's a question for you, Mr Browne. Why is it not sufficient to rely on these entities to stop this information or these conflicts of interests going across departments?

**BILL BROWNE:** Yes, it's a good question. I think it's both. We see in theory the problem with relying on these screens, and that's partly to do with the probity that we expect from government, which to some extent is a higher standard than that expected of, say, the corporate sector. The public is quite entitled to expect that conflict of interest is properly managed. We expect from public servants a higher standard of behaviour than that we expect from private consultants. That reflects the importance of the work that government does and the trust that has been placed into it by the public. But there's also the practical side, which is that we see evidence of these walls, these screens, failing to hold up.

At the Federal level, of course, PwC's failure to properly handle confidential tax information that was given to it is the classic example. But even as that scandal has unfolded, we've seen other examples of PwC and other consulting firms again failing to keep them separate. A pitch for work might come to a department from one part of the consulting firm when another part of the consulting firm has been retained for strategic information—thinking there of the Federal department of agriculture. Similarly, the situation that the Australian Federal Police has been placed in of potentially investigating PwC while also depending on it for not just one type of advice, but a variety of different forms of consulting—it goes to show again how we can't just depend on those walls. We need stricter rules about conflicts of interests and what's allowed to be contracted there.

**ROD CAMPBELL:** Could I add that, in my understanding, these walls kind of sit between the audit function and other functions of consultancies. But in relation to, I guess, my specific expertise on economic modelling and it— [audio malfunction].

**The CHAIR:** Sorry, Mr Campbell, your video just froze. Could I suggest that if you turn off your video and we just have your voice, we might get a better, clearer—

**ROD CAMPBELL:** Sure.

**The CHAIR:** Perhaps we could try that. Apologies.

**ROD CAMPBELL:** That's okay. I've got everybody else quite loud and clear. How's that?

**The CHAIR:** That's excellent. If you could repeat your last sentence before I interrupted you, that would be great.

**ROD CAMPBELL:** Actually, the echo has gone away now too.



**The CHAIR:** Excellent.

**ROD CAMPBELL:** While there is claimed to be a wall between audit functions and other parts of large consulting firms, there is no wall within the economic modelling and economic consulting parts of these businesses, so we see, time and again, the economic arm of a consultancy consulting for coal companies and then the very same people consulting to the New South Wales planning department. I think EY is one example there, but another and possibly more controversial example is a firm called BAEconomics, led by controversial economist Brian Fisher, who has a long track record as a coal industry- and mining industry-aligned economist.

He presented all kinds of assessments on behalf of coal companies in the planning system, and when the New South Wales planning department needed an opinion on particularly controversial fossil fuel projects—the Narrabri Gas Project and the Dendrobium mine that's under sensitive watershed areas in the Illawarra—they went not to the other consultants they had been using, who don't appear to be as conflicted, but they went straight to BAEconomics because they knew what kind of opinion they were going to get there. I think it's a clear example of consultant shopping. There is no kind of wall within economics consultancies that stops the same economist from consulting one minute to a coal company and the next minute to the planning department. Those walls are only even claimed to exist within the particularly large consulting companies. Within some of the smaller, more boutique economics consultancies, they don't exist at all.

**The CHAIR:** When we've asked in previous hearings of this inquiry—whether it's the Government or members of local health district boards, or whatever—about conflicts of interest, we get told, "Yes, but it was disclosed." So, for example, somebody providing economic consulting to the Government might say, "By the way, we also do this for X, Y and Z coal company", and the message we have been getting is that that sort of makes it all okay then because it's been disclosed. Can you explain what the difference is between a simple disclosure and a potential management of a conflict versus, I guess, when a situation is just so heinous and risky that we shouldn't be taking on that engagement at all? Is that a recommendation—

**ROD CAMPBELL:** I think that general question is a good one for Bill, but I'd just say that that kind of disclosure doesn't happen at all within economic assessment of planning projects in the New South Wales planning system. You never get told, "Oh, by the way, Brian Fisher works extensively for the Minerals Council and here he is working for the department in assessing this project." That kind of disclosure just does not happen—at least not to the public. Perhaps it happens to the department. But I can assure you it is absolutely not on the documents that become public facing. But, sorry, the more general question is probably a better one for Bill.

**BILL BROWNE:** Yes, I think it's also the case that you'd expect, as the bare minimum, for those conflicts of interests to be disclosed. Where the work that a consultant has done is public, it'd be appropriate to include all the conflict-of-interest details there so they can be judged by the public in that light. But it might be that it's for the Government then to have policies about how it handles conflicts of interest with those it's contracting for that are more robust and rigorous than what we've seen so far. To some extent, the consulting firms should be handing over the conflict-of-interest details and then leaving it for the person contracting with them to decide if those conflicts of interest are too severe for them to be retained.

Part of the problem with government in particular is that there's a kind of split principal-agent problem where government is making the decisions about who to retain but it's the public that ultimately bears the cost, both in terms of the actual money handed over but also the quality of what comes back. And so there's a potential incentive for government to ignore or even be motivated by those conflicts of interest in a way that—if the incentives were aligned, they wouldn't commission that contractor. So that's why I think stronger written rules about what consultants can be retained are desperately needed. And I think, given what we've seen from the big consulting firms, that could mean ruling out conflicts of interest more strictly rather than just managing them.

**The Hon. Dr SARAH KAINE:** Mr Browne, in your submission to the Federal inquiry, going on with this discussion of transparency and how we should report or potentially report, you made a suggestion that the Senate issue a standing order for the production of consultant reports and also recommended that consulting firms be available to be called to Senate estimates. Are there jurisdictional parallels that could be drawn there?

**BILL BROWNE:** Yes, absolutely. I think the same arguments would apply to an order for papers from the Legislative Council. The argument at the Federal level is one that we arrived at after looking at the role that Boston Consulting Group played in Australia Post and the controversy there relating to Christine Holgate, and so on, where people linked to Australia Post were identifying problems with the Boston Consulting Group report. There was a sense that it might have been commissioned with a determined answer in mind, but it took quite a long Senate process to actually drag out the details of that document.

It's my thinking that, in most cases, the reports that public money pays for should be made publicly available, and public attention is going to be one of the best ways of assessing whether these consultants reports

really hold up. So I would strongly recommend that the Legislative Council looks at adopting some kind of similar standing order. Similarly—although I have to confess I'm not an expert on how the Legislative Council budget estimates process works—our thinking when looking at Senate estimates is that if you are going to keep consultants doing some of the core work of government, then it makes sense that they should be subject to some of the same scrutiny measures that public servants are subject to. Being called up to budget estimates seemed like one natural way of doing that.

**The Hon. MARK BUTTIGIEG:** I take all of that evidence on board. What you are essentially saying in your submission and in your evidence is that there is a way that we could tighten this up and still use consultants, and there is a place for them. But essentially your position, from the submission, is that given the inherent conflict—it's almost embedded, in a way, because you've got essentially competing objectives, right? You've got firms who have got an interest in economic gain via dividends to shareholders, which directly conflicts with their obligations to provide good advice to government.

It relies on, number one, a declaration of the interest. If that doesn't happen, there's the first problem. Number two, once the interest is declared, someone has to vet that interest, that conflict, and ascertain whether or not it's problematic. From what you're saying, there is no real overall government approach to the intricacies of that. In other words, if an ex-director declares a conflict, is there anyone in government who is charged with actually exploring that and ascertaining whether the degree of the conflict is sufficient enough to be a problem? Number three, it's denuding the capacity of the public service to do things that it otherwise would have had.

So essentially your position is that, whilst we can incrementally try and fix up a lot of these things, the ultimate solution is to actually get the Government to employ people who have no conflict because they are employed by the public sector to operate in the public's interest. In the long run, that's the effect. That's essentially what you're saying, isn't it?

**BILL BROWNE:** Yes, I think that's well put. I'd say that core government work should be done by the public service, by those bound by at the Federal level the Public Service Act—I'm sure there's an equivalent in New South Wales—to give frank and fearless advice and with the protections that we have there. In terms of the incremental approach, one thing we've suggested—and this has also been suggested by some consulting firms—is that, where consultants are retained, there should be public service capacity building built in to that. So you might have the consultants this time but not need them the next time around. We've left open—

**The Hon. MARK BUTTIGIEG:** That's a very interesting point, Mr Browne. Under the current paradigm, what essentially happens is that public servants, over a period of 20 to 30 years, in a lot of ways have actually taught consultants how to do their job. What you're suggesting is that we should go back to a model where expertise is brought in when the public service hasn't got that bespoke expertise, but the public service should learn so that in the future the public service may be able to do it. It's almost like the reverse of what's happening now.

**BILL BROWNE:** Yes, that's right. It's not just that we've seen the public service teaching consultants, but we've seen consultants—"poach" is a pejorative term—take public servants, hire them and can often offer them a more interesting experience, and one that might have more impact on government than the work they have been doing within the public service, which is such a shame, if nothing else. So, yes, I think that's absolutely right. Build up the capacity and also reduce the risk that if consultants are retained they might encourage departments to be locked into a long-term dependent relationship. You can kind of see quantitative evidence that this occurs by the fact that consulting firms are often willing to give a discount on the initial work that they do. That is because they're confident that departments will come back in the future for more work on that same stream.

**The CHAIR:** Following on from that, and then I'll come back to you, Dr Kaine, we're talking about a bunch of people who only do public sector work who otherwise might be consultants who are subject to public service standards. It reminds me of the talking points coming out of Allegro and PwC when they're talking about the carving out of what they are now calling—and I can't pronounce it—Scyne or whatever it is. Effectively, they're talking about a bunch of consultants who only do government work and who are subject to these higher public sector standards. Does that make sense to you? Why wouldn't we just use the public sector if that was our option?

**BILL BROWNE:** I think that's a good point and not a question I can answer. It doesn't seem to justify their existence separate from government. At the Federal level, Senator Gallagher is looking into, or has funding for, an internal government consulting service, with an eye that maybe there are some benefits provided by external consultants. But that doesn't have to mean external to government; it can mean external to the particular department or agency. That might be a model that New South Wales might find it worth looking at as well. The other thing that the willingness to split off PwC's government arm from the rest of the organisation shows is that there isn't necessarily a strong case for PwC to be as big and broad as it is. If this new Scyne organisation is going

to do good quality work then why do the government consulting arms of other consulting firms have to remain part of these big conglomerates that raise all of these conflict of interest and ethical screen concerns that we have?

**The Hon. SCOTT FARLOW:** To that point, Mr Browne, isn't that part of it, in a sense, in terms of managing conflicts of interest? Something like a consulting firm that doesn't have private sector clients is one way of managing that conflict of interest that you have mentioned previously.

**BILL BROWNE:** Yes, that's true. And, of course, it will be interesting to see how it develops. It's both the case that it raises questions about why they need to be external to government at all, but it does also presumably address the problems that we've seen around screens. That said, I would just quickly flag that, for example, the way KPMG has provided consulting services to both Treasury and Transport in terms of the TAHE suggests that even a firm that consults only for government can still be subject to some conflict-of-interest concerns.

**The CHAIR:** There's a bit of a logical disconnect, though, isn't there, in that we're being told that we need to use these external consultants because they have all of this industry experience and outside experience with private clients, but then that's creating a conflict of interest, so what we're going to do is just have a government-only consulting service, which just sounds like the public sector.

**The Hon. SCOTT FARLOW:** I guess the argument in a sense is that, with the consulting firms—and to put this to Mr Browne, rather than you and I just having a debate here, though that might be enjoyable—

**The CHAIR:** I enjoy debate.

**The Hon. Dr SARAH KAINÉ:** Through the Chair, I do have a question waiting there, Mr Farlow.

**The Hon. SCOTT FARLOW:** I haven't had that much of a go on this round, I must say. But isn't it inherent that, as with some of the examples—and Mr Campbell is not with us now—raised before in terms of private sector companies, there are often private-sector conflicts that these consulting firms have to deal with as well. They might be dealing with multiple companies in the one industry—competitors to each other. So there are standards that they're required to have in the private sector as well as the public sector in managing conflicts of interest? I think that was directed as a question.

**The Hon. Dr SARAH KAINÉ:** Oh right. I couldn't hear the question.

**The Hon. SCOTT FARLOW:** There was an inflection at the end.

**BILL BROWNE:** To be honest, I'm not sure. It's not my area of expertise in terms of how well they are upheld in terms of just keeping the interests of two private clients separate. But, certainly, we've seen that they have failed to always protect the interests of their public-sector clients.

**ROD CAMPBELL:** I am still here.

**The Hon. SCOTT FARLOW:** Sorry, Mr Campbell. I couldn't see you on the screen.

**ROD CAMPBELL:** That's okay. In relation to economics consultants, there really are no standards at all. There are no professional standards for economists in Australia. There is nothing to stop anyone hanging out a sign outside their house right now and saying, "Rod's Economic Modelling, come on in." You can't do that if you're an accountant or a doctor or a plumber or almost any other profession. But, certainly, in terms of economics consultants and the economics arms of the major consultancies, there are literally no standards at all.

**The Hon. Dr SARAH KAINÉ:** Just talking a bit more about structure—I know we were talking about the PwC split—I note that in a number of submissions here, in the Federal inquiry and in evidence that there has been quite a bit of discussion about the fact that the large consultancies are structured as partnerships, which makes them quite different to other organisations. I wonder if you could expand a bit on why that's been the focus of some attention?

**BILL BROWNE:** I guess the one thing that struck me about the partnership model was that—it's my understanding that the purpose of a partnership is that the shared decision-making and shared profits should lead to shared responsibility and a shared accountability for errors made by the firm as well as shared profits for the work that it does. That hasn't seemed to be the case with these big consulting firms—perhaps in part because they are so big that partners are isolated from other parts of the division. I was struck by questions about whether that partnership model had served its intended purpose. But that's the extent of my knowledge. I wonder if Rod has more to add.

**ROD CAMPBELL:** Nothing to add to that, sorry.

**The CHAIR:** I just wanted to ask you a question, Mr Campbell, and I'm just wondering if we might try your video again. Let's see if it holds. You talked earlier about the other multiple issues with consultants in

planning, and not just economic modelling but also environmental consulting. Are you able to give us any other examples of things that you've seen on a more systemic level? Perhaps there are some examples of it that you can show us with big projects and planning process in New South Wales.

**ROD CAMPBELL:** Yes, and I think systemically what's a problem within the planning process is that the planning department has set up guidelines for what a consultant report needs to look like and, as long as those guidelines are met, then the department and, largely, the Independent Planning Commission take at face value whatever else is said. We found ourselves in an extraordinary situation a little while back in relation to the Mangoola coal project where the planning department basically said as long as a consultant's report complies with guidelines, they don't care how accurate it is. I can read some of this to you. This is from the transcript where an IPC member asked a senior planning department, "Is your approach really to check that the report is consistent with the relevant guidelines not on the actual data that was used? Is that correct?" And the public servants go on to say, "Yes. Our consideration is whether the approach undertaken has been appropriately consistent with guidelines."

So consultants are suddenly in a position where they can take data from their clients, conduct whatever analysis their clients ask for, and as long as they've presented that in a fashion that's consistent with the guidelines that New South Wales Planning has established, then Planning's not too worried about the accuracy of the data. Worse still, even if Planning was concerned about the accuracy of the data, their capacity to really interrogate the analysis seems to have been completely whittled down. It's worth noting that Planning does not do the economic assessment of major projects themselves. The proponent hires one consultant to do the economic assessment and then Planning hires a different consultant to consider the first consultant's work. Sometimes we see the ridiculous situation where the proponent isn't happy with Planning's consultant's review of their consultant and they'll hire another consultant to review the first two consultants. That happened in the case of the Hume Coal Project in the Southern Highlands.

So we've reached a point where not only is Planning not interested in whether or not consultants are using accurate data but they're really not able to interrogate it themselves even if they wanted to, and I think that's a real problem. I think basic economic assessment of major projects really is, or really should be, core business for the planning department. There are kinds of economic modelling, some kinds of economic assessment, that I don't think are useful to have in house. But cost-benefit analysis of major projects, assessment of royalty and tax claims, things like that should be absolutely core business for New South Wales Planning, and they seem to be completely unable to do it. They certainly prefer to hire in consultants to do it for them.

**The Hon. SCOTT FARLOW:** Can I just ask on this example what is the experience in other States in terms of that capacity? Does that exist? Is the same system applied in Victoria, Western Australia or the like?

**ROD CAMPBELL:** My experience in Victoria is certainly that the Victorian planning department or equivalent certainly has a bit more capacity to do that. You still see the same issue of proponents hiring a consultant to write their report and are there potential conflicts there, but I think there is more capacity within the department. I've never seen Queensland's departments hire their own consultants. I think New South Wales is definitely falling behind on internal department capacity.

I would say that some of the guidelines that have been implemented and published and developed in New South Wales probably are ahead of the rest of the country. Some of those guidelines that the planning bureaucrats are so—I was going to say enamoured with but that sounds a little bit flippant, but that they refer to so strongly, yes, a lot of work has gone into those guidelines. A lot of work in New South Wales has gone in to trying to get proponent-commissioned analysis to comply with some standards because there are so few professional standards in the economics profession. I think New South Wales has developed some good guidelines. A lot of consultants were involved in the development of them. But in terms of internal capacity to assess what consultants are saying and manage their own consultants, I certainly think New South Wales Planning is in a bit of trouble.

**The Hon. MARK BUTTIGIEG:** On a couple of your points in the submission, you make the point that one of the recommendations would be to look at banning donations from consultancies, which were quite significant. Do you have any examples of other jurisdictions where this has been addressed?

**BILL BROWNE:** I'm not sure of other jurisdictions that have banned donations from consulting firms, in particular. There's some talk about restrictions on donations from those who contract with government in general, in which case you wouldn't necessarily want a ban there. You would want to review the level and frequency of contracting and come to a measured restriction there to avoid any problems of the implied freedom of political communication. Once you start looking more generally, in New South Wales as an example there have been restrictions on donations based on areas of industry that might have a particular interest in the decisions of government. So I think you can argue by a kind of comparison that, similarly, consulting firms might fall into the

same category. But I don't know that there's anywhere else that has banned consulting firm donations in particular yet.

**The Hon. MARK BUTTIGIEG:** On this other point that you make about commercial in confidence being often used as a barrier for transparency, have you got any commentary about how that might be dealt with?

**BILL BROWNE:** Yes, one area that I have looked at is the Senate's willingness to pursue, say, orders for the production of documents and questions on notice to government and the Government's heavy use in some cases of a commercial-in-confidence argument to justify withholding documents on public interest grounds. There I'd recommend that upper Houses be more willing to use the political solutions that they have to insist on documents being produced—and, indeed, there are examples of that happening in the Senate, historically. I think the New South Wales Legislative Council actually might be ahead of other upper Houses in terms of its willingness to use political solutions. But, of course, that element of commercial in confidence is just one of many examples of the Government depending on it. I think we probably do need a broader debate about how commercial in confidence has been abused.

An assessment of just how often companies that contract with government—to what extent those contracts and that work really involves information that would be commercially revealing. The Government is such a different client to commercial clients and is subject already to so many procurement rules that I am not sure how much commercial-in-confidence information is actually at risk from a more transparent disclosure regime. And maybe you just say if you want to contract with a government that's spending public money, that's the price you have to pay.

**The CHAIR:** Given the time, I think we will have to end it there. With your permission, I would invite you back for another hearing when we get to the planning department and we start covering energy and environment issues. Specifically you, Mr Campbell. That would be incredibly useful. This is going to be a long-ranging inquiry. That might not be for a few months but, if you're willing, that would be fantastic to be able to use your expertise at that time. Until then, thank you for your attendance. To the extent questions were taken on notice, there may be some supplementary questions. I ask that you return them within 21 days. The Committee secretariat will be in touch to discuss how to do that.

**(The witnesses withdrew.)**

**Ms EMMA DAWSON**, Executive Director, Per Capita, before the Committee via videoconference, affirmed and examined

**Ms SARAH McKENZIE**, Research Associate, Per Capita, before the Committee via videoconference, affirmed and examined

**The CHAIR:** I welcome our next witnesses, from Per Capita. Would you like to commence by making a short opening statement?

**EMMA DAWSON:** Yes. I'll defer to Sarah to give our opening statement today.

**SARAH McKENZIE:** I just wanted to say I am hearing a bit of an echo. I'm just letting you know that we might be in slightly different times. Thanks for the opportunity to appear in front of this Committee for this important inquiry into New South Wales government use and management of consulting services. As I said, my name's Sarah McKenzie. I'm from Per Capita, which is an independent think tank. You have our submission, but I just wanted to make a couple of opening points about this inquiry.

Trust is the glue of any liberal democracy. In New South Wales and in other Australian jurisdictions, the public needs to have trust in our public services and our public servants. We all depend on them. Our public servants are the human machinery of government. Impartiality and professionalism are vital to the efficacy of those constitutionally mandated systems of representative and responsible government. Because of this, they have special and sometimes onerous ethical obligations to act in the public interest. In contrast to that, consulting firms performing tasks that are traditionally in the remit of the public service do not have the same statutory obligations to act in the interests of the public or to put the public interests above their own personal interests. It's like a frog and a scorpion. These sectors are different in their very nature. While the chief imperative of the public sector is to preserve the public interest and to add professionalism, quality and value to the commitments of government, the chief imperative of the private firms is now, and will always be, to generate profit.

Of course, this Committee is aware of several scandals relating to consultancy firms engaged by government and that they have primarily come about because of whistleblowers or because of the work of investigative journalists. In our opinion what is most troubling about these revelations is of course what is in them, but more that the whistle had to be blown at all and the fact that this information was never meant to be available to the public in the first place. Yet in the latest scandal after scandal, we're seeing big consultancy firms continue to get work, so it's clear that these organisations are not held accountable for their performances.

Our submission focuses on the need for transparency and accountability. Strengthening transparency and accountability in monitoring and reporting on these consultants should be the urgent priority of the Government. Anything funded by taxpayers should be published in the public domain. This could include reviewing the freedom of information provisions—whether they should extend further to commercial-in-confidence information—but also placing stricter restrictions on contractual obligations. Of course there's good reason why government might want to use specialist advice. What we're really questioning is whether the current over-reliance on external firms to provide consulting services to government is because government agencies are specifically seeking that advice, or if it's because consultants are now needed to perform those critical functions of government that no longer exist in what might be a more hollowed out public service caused by lack of investment in that in-house capacity building.

When thinking about the government being so reliant on consultants, it's important to note that really the only way to reduce this is by sharpening the capacity of the public sector. To this point, we would really recommend a full review of the public sector to identify those knowledge gaps so those gaps can be filled; the development of policies to retain staff, and that might include things like minimising the use of temporary employment contracts; and a review of remuneration.

**The CHAIR:** Thank you for your submission and for coming along and giving us the benefit of your expertise. Perhaps I'll start where you left off, Ms McKenzie. We've heard a lot about the hollowing out of the public sector with this over-reliance on consultants. There's been discussion on raw numbers of how many people are sitting in our public sector and whether we can draw those conclusions based on the data. But as you were just saying, there's kind of a need to review the public sector itself for the gaps.

For example, if we have too many people in—I'm trying to think of a polite way to say this that doesn't involve a swearword—the types of jobs that are just busywork—I think you know the term that I'm referring to. If we've got these people sitting in these busywork jobs, or people that are at a very high management level, but we're lacking the resources to actually do business cases or economic modelling or things like that, then it goes deeper than just the raw numbers. Could you talk a little bit more about that and whether there are examples of other jurisdictions we can look to where they have done that better?

**SARAH McKENZIE:** You can't speak to other jurisdictions, but I would say that it isn't a surprise that you are hearing all of that information about this hollowing out of the public sector. Without a proper review of where there are gaps in knowledge, we're not really going to find out what information is correct. If you have a look at the New South Wales public sector and the amount of people in the public sector, obviously it went up during COVID but it had been on a downwards decline for a while. It popped back up when we really needed the public sector—probably the most in my entire lifetime that the public sector was so important. But now it's dropping down again, so that's why we would recommend a review of it. It's also that it's eating itself. If you're hollowing out the public sector, where is that expertise going? Are they going to these consulting firms? Are they ever going to come back to a public sector if they can earn double as much over there as well? I have a lot of sympathy for the problem and I hope that we can help somewhat. But I think more reviews into it, and targeted reviews, are probably the way to go.

**EMMA DAWSON:** I think the point you make is a very good one. What has happened across the public sector federally but at a State level as well in most State jurisdictions is the loss of that middle tranche of experts, of people who do have the capacity to develop a business case, to put in place the kind of expert advice on critical areas of service delivery. That used to be there. We now have a public service that is very good at procurement but not actually as good at the delivery of advice and of critical analysis of programs. That's been outsourced for so long that really that middle tranche is missing. As Sarah said, we still have a fantastic public sector in terms of service delivery at the community level. We saw that during the pandemic. Our frontline workers are invaluable and do a job that really can't be replaced. At the top we have people who are very adept at managing contracts. But moving from being the holders of expertise and advice to the procurers of external experts is where I think we've gone too far down that track.

**The CHAIR:** I'll ask one last question before I hand over to my colleagues. One of the election commitments that the new Labor Government went to the election with was around this freezing of public sector executive pay. I think there is perhaps a little bit of bureaucrat bashing at times that is popular with some in the media. But if we're to rebuild the public sector, we need to be careful, don't we, about our ability to attract the right people, again, at the right levels? We're not talking about those people in ridiculous, made-up roles. Are there examples in other jurisdictions or around the world where there has been a successful rebuilding of the public sector? What are the principles that they did it on?

**EMMA DAWSON:** We can take some of that on notice. We're certainly aware of efforts in Canada, for example, to reinvest and New Zealand, in particular, in recent years. We can certainly come back with more detail about why and where that has worked and the principles that need to inform it. At a fundamental level, a career in the public service used to be just that: a lifelong career. There was good career progression. You could enter that sector as a graduate and learn the ropes and progress and expect to have a long career that provided you with career development, education and ability to move through to more senior roles. That's often disrupted now. We still train graduates, we still have entry-level positions, but then we are losing too many experts in mid-career to these highly paid external consultancy jobs. That's partly a function of consultancies growing and largely a function of a misguided attempt to crack down on public sector expenditure by refusing to invest in expertise.

**The Hon. Dr SARAH KAINÉ:** I was wondering if I could ask a question on a slightly different topic, but it relates to the hearing that we've had today, which is about the capacity for accountability and about the capacity for self-regulation of consultants by professional or other bodies, or any other regulatory mechanisms. I wondered if you could give your thoughts, research or understanding of what works and what doesn't work.

**SARAH McKENZIE:** I was listening this morning to the first three you had and they outlined pretty well the mechanisms that there are. Of course, there are internal self-accountability measures, but anybody opening a paper in the last three weeks will know that they're simply not working. If a public servant behaved in the way that we're finding out has been happening in some of these big firms, the consequences are huge for them. They have consequences under legislation. I'm from Victoria, but the Government Public Service Act that you have is similar and has similar obligations on public servants. So I think there is a bit of a disconnect between what we would think or what every person would expect the consequences would be and what they actually are.

I think it's also creating that sort of risk-reward problem where you go, "Okay, so a couple of years ago you had Brendan Lyon in here telling a New South Wales parliamentary committee about what had been going on within KPMG, and KPMG is still receiving limited tenders from the New South Wales Government". That is not a judgment on my part, but it does sort of raise eyebrows as to why there isn't some other perhaps internal body within the government that deals with this. There will always be times when you will need to use external consultants, so perhaps it is something within the public sector that oversees the use of external consultants doing activities that would otherwise be done within the public sector.

**EMMA DAWSON:** I think that does reinforce the earlier point too, which is, as Sarah said, there will be times when external providers are needed by government—by the public sector. But if you have so badly undermined the capacity of the public sector itself then the checks and balances aren't in place. So there needs to be that capacity, even if it's a procurement system and procuring out external contracts, to be able to recognise when things look a bit wrong or when guidelines may have been breached. That capacity and that expertise being retained within the public sector is critical for that.

I think, more broadly, the issue of regulation is at the heart of this. Self-regulation is all well and good in an industry if there's sufficient competition and if there are sufficient guidelines for that self-regulation to adhere to. We haven't put those things in place. What we've seen is the creeping of the use of consultants in a way that has happened all this time without people consciously wanting it, so there was not the regulatory framework in place first—so self-regulation by effectively, as we say in our submission, private companies, whose first guiding principle is to make profit for their shareholders and so they are not going to be self-regulating in a way that is adequate to meet the standards of the Government and the public sector.

The kind of regulatory processes that need to be in place need to be embedded within the public service. If they are undertaking work in the public interest, they should be held to the same standards of probity, of ethics and of transparency as would be any public servant. The contract should reflect that quite clearly. I think one other point we've made is that without very good reason, there should not be commercial-in-confidence conditions in contracts for public-sector delivery.

**The Hon. MARK BUTTIGIEG:** Can I ask a quick follow-up? We're hearing from your submission and the other evidence that essentially we've gone from what should be a commonsense, intuitive baseline, which is that you get the public sector to do the vast majority of work in-house and you contract out or you consult out for the bespoke expertise that would otherwise not be inherent in that public service for whatever reason. They can't do everything, and will there be people out there in the bigger world who know more about it. That makes sense.

What we've had in effect, or what seems to be anecdotally coming through in the evidence, is a reversal of that model. We now have the overuse of consultants to the point where the public sector has been denuded of the expertise that it could have had, had we been building it up over the past 20 or 30 years. Perhaps we now have to get back to that old model. Have any studies been done to actually show that incremental increase in the proportion of the use of consultants vis-a-vis internal staff over time—like a longitudinal study? It feels like it's been happening over the past 20 to 30 years, but it would be good to see some numbers around it.

**EMMA DAWSON:** It would. I'm not aware of any such longitudinal study. I think it's something that warrants being done. One of the challenges, of course, is that this information is quite tightly guarded by government departments. What we can trace is the money trail. We don't have the figures for New South Wales but we know there's been a tenfold increase in the use of outsourcing at a Commonwealth level over the last decade, both for labour hire into departments to supplement public sector service provision but also significant blowout—a tripling—of the money spent on consultancy services over the last decade as well. As I said, these are Federal figures.

That's coincided with the cap on public service jobs—on not increasing public service salaries or staff numbers. Going from \$1 billion spend back in 2013 to about \$3 billion in 2022 at the same time as we have had public service staffing caps both at a State level in New South Wales and federally, that indicates a significant shift of resourcing going to the private sector and coming out, at the same time, of the APS or the New South Wales public service. I think it is a worthwhile longitudinal study that someone should do. Perhaps that's something that Per Capita could take away as a project.

**SARAH McKENZIE:** I would just add to that—

**The Hon. MARK BUTTIGIEG:** Perhaps a recommendation—sorry, I interrupted. I was suggesting to the Chair that maybe we may consider a recommendation.

**SARAH McKENZIE:** With those Federal figures, what's really quite shocking about it is this huge increase in money but not an increase or the same sort of increase in the number of contracts. I know you've heard today, and probably in hearings before today, about long contract extensions. So you think you're paying this much for something and then it goes on and on. More information on that is something that would be of interest, at least to us but also to the public. I just wanted to quickly raise that sort of "only an expert can deal with a problem" issue we're having, where these reports that are done by consultants are given legitimacy that almost seems like it doesn't exist if it was to come from the public sector. That to me is wild. What it actually does is it allows somebody else to take the blame if there's a problem. If it's good, "The Government has got this expert to come and help us." If not, "It's the expert's problem and it's not our fault but we'll continue engaging that same expert to do that same sort of work."



**The Hon. Dr SARAH KAINÉ:** Sarah, could I interrupt? There are other places to source experts. I feel a little bit like I have a conflict; I am an ex-academic. There are other places to source expertise on issues, including the research sector and universities. Are there other areas where we might be looking for this kind of expertise?

**SARAH MCKENZIE:** Yes, absolutely. I think the limited tenders that keep going to the same big four, sometimes five, is a big issue with that. This inquiry, and the same inquiry that is happening on the Commonwealth level, is hearing from heaps of experts, academics and people who have worked within the public sector as experts. It isn't just these big four, which might be three soon. But the limited tenders mean that other people aren't having a say in it. Although, still, of course, we'll always need experts from external sources outside of the public sector, but the public sector being rebuilt should really be the priority, and that those experts are from within the public sector and only outside as a last resort, not as the first resort.

**EMMA DAWSON:** I do agree with the point. Without being obviously self-interested, we are a public policy think tank ourselves. We pride ourselves on independent and evidence-based research. I also have an academic background. Australia has some of the most well-resourced, well-educated academics in the world. We have a really fantastic network of researchers and experts within universities and higher education and the research field across the country, most of whom work primarily in the public good and in the common interest.

I think one of the risks, as Sarah said, with the limited tenders going to these same four consulting firms is that by their very nature they share a certain ideological view of the world, which is that the role of government should be reduced and the role of the private sector should be increased. They are inherently seeking profit and they are inherently seeking return on investment, which we all want as good public custodians. But it can, it does, cut out different perspectives—perspectives that are able to look beyond the short term, for example, beyond immediate returns, and look in the longer-term and middle-term clash in interests. So I would encourage the Committee—

**The Hon. MARK BUTTIGIEG:** Well, it's just—

**The Hon. JACQUI MUNRO:** Through you, Chair, I do have a question on that.

**The CHAIR:** Order! I will let Ms Munro ask her question and I'll come back to you, Mr Buttigieg.

**The Hon. JACQUI MUNRO:** Thank you very much, Chair. To Ms Dawson or Ms McKenzie: Who does fund the work of Per Capita?

**EMMA DAWSON:** I'll take that. I'm the executive director and I do our fundraising. We receive our funding from a variety of sources. They're all on our website. We have full transparency about who funds us. It's a combination of philanthropic funding—there are a couple of big philanthropic foundations that provide money to us. We receive some support from parts of the union movement, and we have some institutional support from Maurice Blackburn and from other lawyers, law firms and other institutions, and then we receive public donations as well. As I said, there's a funding page on our website where you can see all of them listed.

**The Hon. JACQUI MUNRO:** Yes. I have had a look at that and I note that one of the three unions that is listed as part of the core Per Capita funding groups is the Community and Public Sector Union. They have long campaigned against the use of consultants by government. As a core funder of Per Capita, would you say that this is something that should be declared to the Committee in an inquiry like this?

**EMMA DAWSON:** I would say so if we took money from them for any specific purpose. As I said, we're completely transparent about our funding. Other union partners currently are the CPSU, CEPU and the ACTU and the Electrical Trades Union. We have very clear funding agreements with our partners that we will not in any way skew our research for preconceived outcomes. We are not guns for hire. We do partner with organisations who share our values, but certainly we have not consulted with the CPSU on these submissions or before talking to you today. As a progressive think tank that is dedicated to social justice and addressing inequality, we have long believed in the strength of the public sector, but we do not take riding instructions from the CPSU on that. But, yes, very happy to say that we are partly—they give us a donation once a year. It is not tied to any specific piece of work but, yes, they are a partner of ours.

**The Hon. JACQUI MUNRO:** So given the ideological views of the CPSU, you don't see a conflict of interest in speaking up publicly in this Committee and against the use of consultants in favour of the public service?

**EMMA DAWSON:** Again, we're not against the use of consultants. We think there is a role for consultants. We think there is a role for experts, but we believe strongly—and if the CPSU pulled funding from us tomorrow, it would not change my view—that an independent public sector that is able to give frank and fearless advice to government of all stripes, no matter which political party is in power, is an essential part of our Westminster system of democracy.

**The Hon. Dr SARAH KAINE:** I'm sure the CPSU would be thrilled if that layer of the public sector was going to be unionised or not. I'm sure they would be absolutely delighted.

**The CHAIR:** Order!

**The Hon. JACQUI MUNRO:** Well, I suppose it's a matter of conflict of interest and just ensuring that—

**EMMA DAWSON:** Which was fully disclosed.

**The Hon. SCOTT FARLOW:** It's fully disclosed.

**The CHAIR:** Order!

**The Hon. Dr SARAH KAINE:** It's on the website and it says "social justice organisation".

**The CHAIR:** Order! We are going to Mr Buttigieg.

**The Hon. SCOTT FARLOW:** It's a big difference if it's a social justice organisation!

**The Hon. MARK BUTTIGIEG:** Thank you, Chair. That's actually a nice little counterpoint to the debate. Let's take the ideology out of it for a moment, though. On purely economic grounds, my colleague and I were doing a calculation before, and you refer to this in your submission. Over five years, we've spent \$1 billion on consultants. If you divide that by the five years, it's \$200 million. If you allow for an average public sector wage of, say, perhaps with on-costs, \$200,000—I think that would be fair—that is 1,000 jobs per year.

**EMMA DAWSON:** Yes.

**The Hon. MARK BUTTIGIEG:** It's hard to imagine how you match that value of an internal resource by contracting out 1,000 jobs per year, isn't it?

**EMMA DAWSON:** Those figures are pretty compelling. Without knowing what those thousand jobs are, for the kinds of senior positions in the public sector, you'd be expecting a salary that's on par with perhaps upper middle management in the consultancy sector. I'm not fully across what consultants earn, but it's certainly more than I ever have. I do think there is strong evidence to show that we're not necessarily getting value for money on all of these contracts, all of the time. When we are simply artificially imposing a cap on public sector workers, with a view to saving headline funds on salaries, but we're then paying this out in consultancy fees, it is incumbent on our representatives in Parliament to demonstrate that that is an effective use of taxpayer funding, yes.

**The Hon. MARK BUTTIGIEG:** I could imagine for that sort of quantum of jobs, you could employ any number of structural engineers, electrical engineers, planning experts, contractual surveyors—I mean, God knows. This is the importance of this study. Your referred to this before—the increase in the volume of spend is a leading indicator, I think, of the degree to which the model has been flipped. Instead of having a bespoke service where experts come in from time to time, it has now become a major portion of the State budget.

**EMMA DAWSON:** Yes, and I think that's the reversal that gives cause for concern. I think it's important to go back to how this interplays with ideology. This is not simply an ideological position. It is a fact that government is more than the Parliament. Government is more than the elected representatives. The machinery of government includes those public servants and the people that give action to government decisions and that give action to service delivery. I don't think it's overly ideological to suggest that the Australian people expect the intrinsic part of government to be well funded and to be independent from private money.

**The Hon. MARK BUTTIGIEG:** Well, asking for value for money on behalf of taxpayers is hardly ideological, I would have thought, but anyway.

**EMMA DAWSON:** I wouldn't think so.

**The CHAIR:** If I could come back to the content, I want to pick up on some of the excellent points you made previously. In relation to the concept of having strong procurement guidelines, we heard in a previous hearing the head of procurement in New South Wales talking about the reliance that's placed on guidelines and processes to ensure that certain things are done, but without any sort of enforcement powers or checks and balances in place. One of the things that the Auditor-General picked out was that, of the 82 consulting contracts that she had looked at, although there was a requirement under the procurement guidelines to do a post-engagement review, only three of those 82 contracts that she had sampled had actually had that. Do you think that there's an element of lacking the expertise to actually review the work that consultants have done? Are there other ways of doing this that you've seen in other jurisdictions that can actually see if we're getting value for money after these consultant contracts have ended?

**EMMA DAWSON:** That's an excellent point. I think that it does go to the broader issue I raised earlier of the fact that the loss of capacity and expertise within the public service isn't just about direct work; it's about

their ability to manage and oversee the contractors that are coming from the outside. The Auditor-General can't be expected to review every contract that comes into government. One thing that could be put in place that has been considered at a Federal level, I know, is the office of the Evaluator General, which is able to evaluate programs and what works. I think having, within each department, an office that is responsible for evaluating the efficacy of contracts and whether those guidelines are adhered to would be a worthwhile investment, at the same time as rebuilding the capacity within the senior levels of each department—to monitor those contracts and to ensure that that post hoc review isn't a "nice to have", but it's a core part of the contracted agreement. Sarah, did you want to add to that?

**SARAH McKENZIE:** No, I don't have anything to add.

**The Hon. SCOTT FARLOW:** I just want to pick up on the point about the profit-oriented companies that, of course, consultancy firms are. I would think, in a sense, there are actually learnings from the private sector as well. Private sector companies need to manage their own engagement with consultants. Of course, a consultant wants to get more work. As you've already talked about—I think it was referenced—the contracts haven't increased but maybe the scope of the contracts have increased and they've extended, and there is a problem in government of managing those contracts. Are there any lessons from how the private sector potentially manages some of those contracts with consulting firms that, potentially, government could pick up on as well?

**SARAH McKENZIE:** Well, we haven't looked in any great detail at all into the private sector using consultancy firms, so I can't give you an answer on that, sorry.

**EMMA DAWSON:** I can speculate on that slightly. I have worked in private business and worked with consultants in the past. I think that the key issue is ensuring—when a private company engages a consultant and spends money on that consultant, they are beholden to either their board or their shareholders to ensure that they have delivered something that meets the original contract and is value for money. There currently aren't such robust things in place in public sector engagement of consultants, partly because it's so big and partly because the [inaudible] departments report to different Ministers. Perhaps a department reports to three or four different Ministers.

The Parliament's processes [inaudible] that, but certainly the way that the private sector engages is to ensure that they are accountable to their shareholders or, if they're not a publicly listed company, to their board and to their owners; and that, at the end of every year, there's a financial audit done of a company and they have to show where the money has been spent and what has been returned for it. That kind of almost audited financial year reporting by departments is not something that happens in the same way as in the private sector, but it should be the same principles that underpin it.

**The Hon. SCOTT FARLOW:** I guess in a sense there has been the five-year Auditor-General's report in terms of the use of consultancy services in New South Wales, but that sort of time frame potentially is not the best to be able to rein in consultancy contracts or the like if we do see blowouts and them rolling out, so there might be potential mechanisms there. I don't know of your thoughts on that in terms of being able to better manage consultancy contracts within the public sector.

**EMMA DAWSON:** I think five years is too long. We know that by the time something is reviewed on a five-year basis the horse has bolted, the money has been spent, probably the program is done with. Whether it would be a cost-benefit analysis for the Government to decide, "Well, is it worth increasing that to once every three years?" Once every year would be ideal, obviously. What is the cost of doing so? Ultimately, I would suspect, if that were investigated properly, the return—the benefit of ensuring value for money and ensuring the contracts aren't blowing out and are delivering what they're expected to deliver—would likely be worth the cost of increasing the frequency with which those reviews were done.

**The CHAIR:** Both of you made an excellent point in relation to this idea that you need experts for certain things. Ms Dawson, you also commented—and I'm not going to get the words right, but you put it in a really good way—that basically there's an assumption from these consultants; they're selling a product. When we're looking at the sheer number of consultants, either present or ex-consultants, sitting on government boards, we're being told that there's no conflict of interest because they're not necessarily giving contracts to the consulting firms they used to work for or currently work for. But is there a form of conflict of interest in just having people on boards who see the need for consultants in the first place? Or perhaps there's at least a bias towards the use of consultants when you've got boards stacked with consultants.

**EMMA DAWSON:** Stacked with consultants. Yes, I think so. I think it's natural for anyone to prefer the systems they are familiar with and to say, "Well, I know that works and I know how it works, so therefore I can trust it." I think diversifying the kinds of experts that sit on government boards—as I said earlier and as was said by the Committee, more use of academics and more use of people that aren't beholden to any particular outcome

for their salary, for example, but also recognising that expertise is earned and learned, and it's not automatic. Often consultants will say they're expert in something when they're not, and they're able to quickly learn on the job.

What we need to recognise is that often the work of government can be quite innovative, and someone will hold themselves out as an expert when they're actually learning as they're doing the work. That should be completely uncontroversial within the public service too. The way that we build expertise and capacity is by asking people to [inaudible] with new ideas and to understand them. Often, coming in without that "expertise" means you've got a better ability to ask questions, to question assumptions and to question those inherent biases that often people don't even recognise they have.

**SARAH McKENZIE:** Can I add as well, on that conflict of interest, that I think we are in a situation, at least definitely federally but probably within State jurisdictions as well, where we're dealing both with real conflicts of interest but perceived conflicts of interest as well. I think they both kind of have the same effect on public trust: public trust in the use of these large consultancy firms but also public trust within government itself. There might need to be measures taken or imposed upon consultancies that maybe wouldn't have needed to be considered before to restore that trust. Things like—I'm not sure if I noted it in the New South Wales submission, but at least in our Federal submission we spoke a bit about these large consultancy firms also being some of the biggest political donors. That within itself doesn't say there's a conflict of interest there, but it could be perceived to be one.

It may be true that you are able to put up a very good wall between your consulting with the Government about Government policy while also advising 43 of the world's biggest polluters. You might be able to do that, but at this point I think we've got to a position where it would be difficult for the public to believe that. I think we're dealing with both real conflicts of interest but also perhaps some measures to deal with perceived conflicts of interest that have been able to kind of fester.

**The Hon. JACQUI MUNRO:** Just quickly, I think that relates very closely to the questions that I was asking before about if only a perceived conflict of interest but at worst a conflict of interest that your organisation is required to manage, given the donors. As I said, those four donors—the CPSU makes up one-fourth of those donors and could be making up a quarter of a percentage of your budget. I don't know—I'm just speculating, of course, but what measures are you taking to actually manage your conflicts of interest?

**The CHAIR:** Order! Progressive donors and progressive think tanks—it is not surprising they think the same.

**EMMA DAWSON:** I'm quite happy to answer that.

**The CHAIR:** Can we move off that, because we don't have much time.

**EMMA DAWSON:** Can I just be very clear. The CPSU donates \$40,000 a year to us. Our annual revenue is \$1.2 million, so they are not calling the shots. They contribute a tiny proportion of our funding—nothing like a quarter of our funding. It is \$40,000 out of \$1.2 million.

**The Hon. SCOTT FARLOW:** I'd say those percentages are similar for political parties as well.

**The Hon. JACQUI MUNRO:** But you're saying that nobody who donates calls the shots anyway. But I'm just asking about how—

**The CHAIR:** It's outside the terms of reference of this inquiry.

**The Hon. JACQUI MUNRO:** It's a management of a conflict of interest.

**The CHAIR:** This inquiry is not about Per Capita. We have one minute left, and I really wanted to ask a question. Go ahead.

**The Hon. Dr SARAH KAINE:** My point is that it's my understanding that we invited Per Capita to be witnesses. It is not appropriate that we investigate, considering that due diligence in us, being on this Committee, is that we might have googled if we had concerns about who we were calling as witnesses. I would ask that we stay within the bounds of what we're meant to be doing.

**The CHAIR:** I will take this last half a minute to ask you one question that is relevant to the terms of reference. One of the things that we've discovered during this inquiry is that the standard commercial framework under which the New South Wales Government appoints the big consultants, which puts them onto that pre-qualified list for procurement purposes, has a standard set of fees and also has a 10 per cent discount given where there's a secondee put into government departments. The fact that you have consultants discounting their fees by 10 per cent to put a secondee into a government department—what does that tell you about the benefit of that secondment to the consultant?

**EMMA DAWSON:** It's obviously worth a great deal to them to have someone inside the department to get the experience of what it's like to work in that environment, to understand the ins and outs and the mechanics of public sector work and how the public sector engages with Parliament. It is a very cheap form of training for their consultants. I think that's the least cynical interpretation. Perhaps a more cynical interpretation is that they are able to put people inside the hen house, as it were, to access information that they may not otherwise easily access, and that soft information that just comes through being there day to day. That practice has continued, and of course we then see quite a revolving door with younger—the very talented members of the public service being extracted into those much more highly paid consulting jobs as well. It can both reduce the independence of the public service and it can reduce their ability to develop talent internally as well.

**The CHAIR:** Unfortunately, that is all that we have time for. Thank you so much for attending. This has been a very fascinating session, and I'm very grateful for your expertise and the time that you have taken to share your views with the Committee. To the extent that there are questions taken on notice and supplementary questions, the secretariat will be in touch with you, but there are 21 days to return them. That concludes the hearing for today. Thank you very much to all our witnesses.

**(The witnesses withdrew.)**

**The Committee adjourned at 17:00.**