



PERFORMANCE AUDIT

2 MARCH 2023

# NSW government agencies' use of consultants

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



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In accordance with section 38EC of the *Government Sector Audit Act 1983*, I present a report titled '**NSW government agencies' use of consultants**'.

A handwritten signature in black ink, appearing to read 'Ian Goodwin'.

**Ian Goodwin**  
Deputy Auditor-General  
2 March 2023

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## RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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## **Section one**

NSW government agencies'  
use of consultants

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# Executive summary

Between 2017–18 and 2021–22, NSW government agency annual reports disclosed total spending of around \$1 billion on consultants across more than 10,000 engagements. More than 1,000 consulting firms provided services to NSW government agencies during this period. Consulting is a classification of professional services that is characterised by giving advice or recommendations on a specific issue. The NSW Procurement Board Direction PBD-2021-03 defines a consultant as a person or organisation that provides 'recommendations or professional advice to assist decision-making by management'. PBD-2021-03 notes that the advisory nature of the work of consultants is the main factor that distinguishes them from other providers of professional services.

The NSW Procurement Board is responsible for setting procurement policy, issuing directions to support policies, and monitoring and reporting on agency compliance with policies and directions. NSW Procurement, a division within NSW Treasury, supports agencies to comply with the NSW Procurement Board's policies and directions. A 'devolved governance model' is used for procurement in New South Wales. This means the heads of government entities that are covered by the NSW Procurement Board's directions are responsible for managing the entity's procurement, including managing risks, reporting and ensuring compliance, in line with procurement laws and policies.

This audit assessed how effectively NSW government agencies procure and manage consultants. It assessed the role of the NSW Procurement Board and NSW Procurement in supporting and monitoring agency procurement and management of consultants. It also reviewed a sample of consulting engagements from ten NSW government agencies to examine how agencies procured, managed and reported on their use of consultants. The ten NSW government agencies were:

- NSW Treasury
- Department of Communities and Justice
- Department of Customer Service
- Department of Education
- Department of Planning and Environment
- Department of Premier and Cabinet
- Department of Regional NSW
- Infrastructure NSW
- Sydney Metro
- Transport for NSW

There are four different sources of data that contain information about spending on consultants by NSW government agencies: the State's financial consolidation system (Prime), disclosures of spending on consultants in agency annual reports, and two systems operated by NSW Procurement (the Business Advisory Services (BAS) dashboard and Spend Cube). Each of these data sources serves a different purpose, and collects and categorises information differently. None of these provide a complete source of data on spending on consultants, either in their own right or collectively.



NSW Treasury considers Prime to be the 'source of truth' on consulting expenditure across the NSW public sector. An account within Prime records recurrent spending on consultants, but this account does not include capital expenditure (that is, spending on consultants that has from a financial reporting perspective been 'capitalised' to a project on the balance sheet). As the State's financial consolidation system, Prime captures all financial information. However, capitalised consulting expenditure is recorded within various capital accounts, and is not identifiable within these accounts. While this is appropriate for accounting purposes, it means that the Prime account that records recurrent consulting expenditure does not reflect total spending on consultants by NSW government agencies. We used the data in Prime to assess whether NSW government agencies met the NSW Government's policy commitment—stated before the 2019 election and costed by the Parliamentary Budget Office—to reduce recurrent expenditure on consulting by 20% each year, over four years, from 2019–20. We did this because, while the Prime account for recurrent consulting expenditure does not reflect all spending on consultants, it does capture the recurrent spending that was subject to the policy commitment.

Most NSW government agencies are required by legislation to disclose spending on consultants (as defined in PBD-2021-03) in their annual reports. These disclosures include both recurrent and capital expenditure. For consulting engagements that cost more than \$50,000, the disclosures also provide itemised information, including the names of the individual projects and the consultants used. While this data is more complete than Prime because it includes capital expenditure, it also has some gaps. Some entities are excluded from public reporting requirements on consultant use. For example, NSW Local Health Districts (LHD) are not required to produce annual reports, and the Ministry of Health does not include LHD consulting expenditure in its annual report.<sup>1</sup> We used annual report disclosure data to report on total expenditure on consultants, and the concentration of suppliers of consulting services to NSW government agencies.

The BAS dashboard and Spend Cube are systems created by NSW Procurement to collect information about spending on suppliers of professional services. This includes consultants, but also includes other professional services providers. The systems were not designed for reporting on spending on consulting as defined in PBD-2021-03. However, we have used this data to assess specific aspects of NSW Procurement's monitoring of the use of consultants by NSW government agencies.

In 2018, we conducted an audit titled '[Procurement and reporting of consultancy services](#)'. This assessed how 12 NSW government agencies complied with procurement requirements and how NSW Procurement supported the functions of the NSW Procurement Board. The 2018 audit found that none of the 12 agencies fully complied with NSW Procurement Board Directions on the use of consultants and that the NSW Procurement Board was not fully effective in overseeing and supporting agencies' procurement of consultants. Specific findings from the 2018 audit included:

- Agencies applied the definition of consultant inconsistently, which affected the accuracy of reporting on consultancy expenditure.
- There was inadequate guidance from NSW Procurement for agencies implementing the procurement framework, with a need for additional tools, automated processes, and other internal controls to improve compliance.
- NSW Procurement had insufficient data for effective oversight of procurement and did not publish any data on the procurement of consultancy services by NSW government agencies.

<sup>1</sup> The *Government Sector Finance Legislation (Repeal and Amendment) Act 2018 No 70* will amend the *Health Services Act 1997* to specify that annual reporting information for any or all NSW Health entities may be included in the annual reporting information prepared by the Ministry of Health under the *Government Sector Finance Act 2018*. This provision is expected to commence on 1 July 2023.

## Conclusion

**Our review of a selection of consulting engagements from ten NSW government agencies indicates that these agencies do not procure and manage consultants effectively. We found that most agencies do not have a strategic approach to using consultants, or systems for managing or evaluating their performance. We also found examples of non-compliance with procurement rules, including contract variations that exceeded procurement thresholds. NSW Procurement, a division within NSW Treasury, provides frameworks and some guidance to agencies for procuring consultants. However, gaps in its data collection and analysis mean monitoring of strategic risks is limited and it does not respond to agency non-compliance consistently. There are limitations in ability of various data sources to accurately record spending on consultants. These limitations include incomplete recording of all spending, and different definitions of consulting for accounting and financial reporting purposes. Notwithstanding these limitations, and based on information in the State's financial consolidation system (Prime)—which records recurrent expenditure on consultants—it is highly unlikely that NSW government agencies will meet the government's 2019 policy commitment to reduce spending on consultants, as defined in the policy commitment and costed by the Parliamentary Budget Office.**

The use of a 'devolved governance model' for procurement means NSW government agencies are responsible for developing and implementing their own systems that align with the NSW Government Procurement Policy Framework. Agency heads are responsible for demonstrating compliance. Most agencies included in this audit did not have a clear strategic approach to how and when consultants should be used (for example, to seek advice and expertise not already available within the agency) and were using consultants in an ad hoc manner.

Our analysis of whole-of-government spending on consultants, drawn from agency annual reports, indicates that four large professional services firms account for around 27% of spending on consultants in the period from 2017–18 to 2021–22. The number of firms making up the top 50% of expenditure decreased from 11 to eight during this time, with the other 50% of expenditure spread across more than 1,000 firms. Concentration of consulting engagements within a small number of firms increases strategic risks, including that advice is not sufficiently objective and impartial, and that NSW government agencies become overly reliant on selected professional services firms.

Our review of a selection of consulting engagements by NSW government agencies found several examples of non-compliance with procurement policy. This included the use of variations to contract values which exceeded allowable limits. Record keeping was inadequate in many cases we reviewed, which limits transparency about government spending. Most agencies did not proactively manage their consulting engagements. The majority of consulting engagements that we reviewed were not evaluated or assessed by the agency for quality. Very few used any processes to ensure the transfer and retention of knowledge generated through consulting engagements. This means agencies miss opportunities to increase core staff skills and knowledge and to maximise value from these engagements.

NSW Procurement oversees a detailed policy framework that provides guidance and support to NSW government agencies when they are using consultants. The policy framework provides mandatory steps and some other guidance. Our audit on the procurement and reporting of consultancy services in 2018 found that agency reporting on the use of consultants was inconsistent and recommended that NSW Procurement should improve the quality, accuracy and completeness of data collection. NSW Procurement's guidance on how agencies should classify and report on consulting engagements remains ambiguous. This contributes to continued inconsistent reporting by and across agencies, and reduces the quality of data on the use of consultants.

NSW Procurement has made some improvements to the information available about spending on consultants since our audit in 2018, including additional analysis and reporting that is available to agencies. However, there is still no single data source that accurately captures all spending on consultants. This is despite our recommendations in 2018 that NSW Procurement improve the quality of information collected from agencies and suppliers, which NSW Procurement accepted. This makes it harder for NSW Procurement or individual agencies to track trends and identify risks or improvement opportunities in the way consultants are used.



In early 2019, the NSW Government made a policy commitment to reduce consultancy expenses by 20% each year, over four years, from 2019–20 (excluding capital-related consultancy expenses). This commitment was set out in the Parliamentary Budget Office's '2019 Coalition Election Policy Costings (Policy Costings)'. NSW Treasury subsequently advised that to implement this commitment, agency budgets were reduced in Prime in line with the savings targets. However, actual spending on consultants recorded in Prime in the first three years after the commitment was made was almost \$100 million higher than the targets. We did not see any evidence that the financial data on actual expenditure was used to inform reporting on NSW government agencies' progress toward achieving the savings set out in the policy commitment.

## 1. Key findings

### **NSW Procurement administers a detailed framework for procurement, but guidance for classifying and reporting on consulting expenditure is ambiguous**

The NSW Government Procurement Policy Framework (the Procurement Policy Framework) sets out a three-phased approach to procurement, which applies to the procurement of consultants. This is comprised of planning, sourcing and managing engagements. The Procurement Policy Framework provides detailed guidance to agencies, with a combination of mandatory and recommended steps. NSW Procurement oversees the Standard Commercial Framework (SCF) which applies to most types of professional services, including consulting. The SCF sets out the maximum amounts that consultants that agree to the SCF terms can charge for services. NSW Procurement's analysis indicates that its implementation of capped rates for consultants has resulted in 'avoided costs' to government agencies of around \$150 million since 2017–18. NSW Procurement used actual spending data from the BAS dashboard from 2016 to calculate a weighted average rate to use as a baseline. This baseline rate was compared to the actual rates charged from January 2018 onward, to estimate an 'avoided cost' that could be attributed to the introduction of the SCF capped rates.

Most NSW government agencies are required to report spending on consultants in their annual reports, using the NSW Procurement Board definition of consultant. Our review of a sample of engagements indicated that agencies were not interpreting the definition of consultant consistently, either within or across agencies. Weaknesses in NSW Procurement's guidance are contributing to this problem.

The NSW Procurement Board definition states that consulting is a subset of professional services and that the advisory nature of the work differentiates consulting from other professional services. NSW Procurement's guidance on applying the definition provides examples of work that would or would not be considered consulting, but there is overlap between the examples given. For example, NSW Procurement's guidance says a provider engaged for 'high-level policy advice on outcomes of a government program' would meet the definition of a consultant, but a provider engaged to 'analyse data regarding a program under the direction of an agency' would not. Similarly, engaging a professional services provider 'to develop training programs' would be considered consulting, but engaging a provider to deliver the training programs would not. In each of these examples, both types of work could be conducted by the same provider within a single engagement.

### **There is no single source of data that accurately captures all whole-of-government spending on consultants, despite previous commitments to improve data quality**

There are four different sources of data that contain information about spending on consultants by NSW government agencies: agency annual reports, the NSW Government's financial consolidation system (Prime), and two systems operated by NSW Procurement (the Business Advisory Services dashboard and Spend Cube). Each of these sources of data serves a different purpose, and none of the four datasets individually or collectively provides complete information on total actual spending on consultants. NSW Procurement has made some improvements to the information available about spending on consultants since our audit in 2018, including conducting additional analysis and reporting that is available to agencies. However, the absence of a complete and comprehensive single source of data on spending on consultants limits NSW Procurement's ability to identify and manage risks and improvement opportunities relating to the use of consultants by NSW government agencies.

NSW Treasury considers data collected and reported in the State's financial consolidation system, Prime, to be the 'source of truth' on consulting expenditure across the NSW public sector. As the State's financial consolidation system, Prime captures all financial information. However, the Prime account for consulting expenditure excludes some significant areas of expenditure that may meet the NSW Procurement Board definition of consulting. For example, spending on consultants that has been 'capitalised' by an agency (recorded as being related to capital works such as major infrastructure projects) will not appear in the Prime data on consulting expenditure. Capitalised consulting expenditure is recorded within various capital accounts, and is not identifiable within these accounts.

Spending on consulting that is disclosed in agency annual reports does include capital-related expenditure on consultants. However, there are also gaps in this data because some entities are excluded from public reporting requirements on consultant use. For example, spending on consultants by NSW Local Health Districts (LHD) is not reported in any agency's annual report consulting disclosures. The Ministry of Health does not include the consulting expenditure of LHDs in its annual reporting and LHDs are not required to publish individual annual reports.<sup>2</sup> Recurrent consulting expenditure by LHDs is included in Prime, where all expenditure by Health entities is consolidated.

Our analysis of differences between annual report disclosures and the Prime system indicates that entities that were not required to report publicly spent over \$170 million on consulting from 2017–18 to 2021–22. NSW Treasury advises it is currently considering feedback from stakeholders about annual reporting requirements. NSW Treasury intends to develop regulations and Treasurer's Directions that may update annual reporting requirements. Extending reporting requirements to entities that are not currently required to report would help address one of the gaps in data on consulting expenditure.

In response to our audit on the procurement and reporting of consultancy services in 2018, the Secretary of the then Department of Finance, Services and Innovation stated that data quality and compliance will be significantly improved for all suppliers once a vendor management system had been implemented. NSW Procurement advised that this system has not been implemented.

**Based on available data, it is highly unlikely that NSW government agencies will achieve the government's 2019 policy commitment to reduce spending on consultants**

In early 2019, the NSW Government made a policy commitment to reduce consultancy expenses by 20% each year, over four years, from 2019–20 (excluding capital-related consultancy expenses). This was set out in the Parliamentary Budget Office's 2019 Policy Costings. Annual savings requirements were calculated by the Parliamentary Budget Office using forecasts of consultancy expenditure from Prime provided by NSW Treasury.

NSW Treasury subsequently advised this audit that the policy was implemented by reducing agency budgets in Prime in line with the savings targets. NSW Treasury has also advised that the data recorded in Prime is the 'source of truth', and that as it only includes recurrent expenditure (that is, it excludes capitalised consulting expenses), it aligns to the 2019 policy commitment. Actual spending information in the Reports on State Finances from 2020–21 and 2021–22 indicates that it is highly unlikely that this spending reduction target will be met. NSW government agencies were expected to reduce spending on consultants by \$99.6 million over four years from 2019–20, compared to forecast expenditure. According to actual spending data, agencies missed the spending reduction targets by \$98.7 million in the first three years from 2019–20. This means that NSW government agencies would need to limit spending on consultants to less than \$1 million in 2022–23 to meet the four-year savings target. We did not see any evidence that the financial data on actual expenditure was used to inform formal reporting on NSW government agencies' progress towards achieving the savings set out in the policy commitment.

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<sup>2</sup> The *Government Sector Finance Legislation (Repeal and Amendment) Act 2018 No 70* will amend the *Health Services Act 1997* to specify that annual reporting information for any or all NSW Health entities may be included in the annual reporting information prepared by the Ministry of Health under the *Government Sector Finance Act 2018*. This provision is expected to commence on 1 July 2023.

The targeted reduction in spending on consultants formed part of a broader NSW Government policy commitment costed by the Parliamentary Budget Office to reduce spending on procurement by \$729 million over four years. NSW Treasury is responsible for coordinating the delivery of this commitment. This audit did not assess whether NSW government agencies achieved this target for spending reductions on procurement more broadly.

### **Spending on consultants is concentrated within a small number of firms**

Our analysis of agency annual report disclosures of spending on consultants between 2017–18 and 2021–22 shows that four professional services firms (KPMG, Ernst & Young, PwC, and Deloitte) accounted for around 27% of total spending on consultants by NSW government agencies. Our analysis indicates that this concentration of consulting engagements within a small number of firms is increasing, with the number of firms that accounted for 50% of total spending dropping from 11 to eight between 2017–18 and 2021–22. The remaining 50% of spending on consultants during this period was spread across more than 1,000 other firms. Frequent engagement of a small number of providers may have some benefits for agencies, such as helping them to negotiate lower rates. However, it creates a range of risks, including over-reliance on a limited number of providers for advice and potentially reducing the independence of advice.

### **Most agencies did not provide evidence that they use consultants strategically**

Our review of the documentation for a sample of consulting engagements across ten agencies indicated that most agencies used consultants in an ad hoc manner. Most agencies included in this audit did not provide examples of structured approaches for the use of consultants, such as guidance for determining when consultants should be used and when an agency should complete work using its own staff. Reasons given by agencies included that consultants are used for short-term projects where an agency lacks capacity or skills to complete the work, or where deadlines for delivery of the work are short and there are competing priorities. However, agencies did not provide any evidence to show that consultants were only or predominantly used for this type of work.

Our assessment of a sample of consulting engagements found several examples in which agencies engaged consultants to complete work that fits within the core role of public service. These included providing advice on whole-of-government accounting policy, and general (non-technical) policy and strategy advice on a major policy issue. Consultants can provide expert knowledge and an external perspective that can help government agencies achieve better outcomes for the community. However, using consultants to conduct core public service work increases the risk of over-reliance on consultants and may contribute to a reduction in the capability of the public service. These risks have been raised in our previous audits, including our ['State Finances 2021'](#) report and our performance audit report titled ['Design and implementation of the Transport Asset Holding Entity'](#). They have also been raised in reports that considered the use of consultants by the Australian Government, including the Independent Review of the Australian Public Service in 2019.

### **Some contract variations contravened procurement policy thresholds**

Agencies made variations to contracts that increased the amount paid to consultants in almost one in three of the sample of consulting engagements we examined. In five of these cases, the total amount of the contract increased by more than \$500,000 compared to the amount initially agreed. The largest increase through variations to an individual contract was \$2.5 million. The Procurement Policy Framework states that routinely exercising extension options or rolling over contracts reduces competition and limits access to new suppliers, products and services. For these reasons, the Procurement Policy Framework states that agencies must only extend contracts where it can be demonstrated that doing so will deliver value for money.

Our review of a sample of consulting engagements found several examples in which the original estimated value of contracts did not include the cost of variations, even when the agency had anticipated them. In some of these cases, the variations increased the value of the contract by amounts that exceeded the allowable limits. The requirements for tendering and approval that apply to individual procurements are determined by the estimated value of a procurement. Section 7 of the Procurement (Enforceable Procurement Provisions) Direction 2019 states that the estimated value of a procurement must include any extensions, renewals or similar mechanisms.

This direction does not apply to several NSW government agencies, including Sydney Metro and parts of Transport for NSW. Our assessment of the sample of 82 consulting engagements also found six examples where financial delegations were not complied with when approving the engagement.

### **We identified gaps in record keeping, including critical documents missing**

Only three of the ten agencies included in this audit could provide contracts for all of the consulting engagements that we selected for the sample. Overall, agencies did not provide contracts for almost one quarter (24%) of the engagements selected for this audit. This figure excludes the consulting engagements in which the relevant documents had been moved to another government agency because the function had been transferred to that agency following Machinery of Government changes. NSW government agencies are responsible for maintaining complete and accurate records in line with requirements under the *State Records Act 1998*. The inability of some agencies to provide key documents relating to consulting engagements is not consistent with the *State Records Act 1998* and reduces transparency about government spending.

### **Most consulting engagements we reviewed were not monitored or evaluated by agencies**

Our review of a sample of consulting engagements found that most agencies did not have systems or processes for monitoring the performance of consultants. Fewer than half of the engagements we reviewed included a formal requirement for the consultant to report to the agency on progress. Evidence that this reporting was done was provided to us in only five cases. The NSW Procurement Policy Framework states that agencies should manage contracts to deliver the best outcomes for the agency and the government. This includes establishing systems and processes to ensure compliance with contract terms and performance requirements.

We were provided with evidence of post-engagement reviews of work completed for only three of the 82 engagements we examined. The NSW prequalification scheme requires agencies to submit post-engagement reports to NSW Procurement for all engagements valued at more than \$150,000. Agencies must also submit reports for engagements of any value where the agency considers the performance of the consultant to be unsatisfactory.

### **Most agencies did not transfer or retain knowledge and skills from consulting engagements**

Our examination of a sample of consulting engagements identified only 11 engagements (13% of our sample) that included evidence that knowledge transfer or plans for retention of knowledge were built into agreements with consultants. There is no formal requirement for knowledge transfer or retention plans to be included in consulting engagements, and it is possible for staff at agencies to gain some knowledge from consulting engagements informally or indirectly. However, using a structured approach to transferring and retaining knowledge from consulting engagements would increase the likelihood that opportunities to improve staff skills are maximised. This may reduce the chance that agencies will need to re-engage consultants to do similar work in the future.

In the cases that did include this, the contracts or work plans included co-location of consultants with agency staff, or the consultants conducting coaching, workshops or seminars with staff from the agency.

## 2. Recommendations

### **By June 2023, NSW Treasury should:**

1. as part of its annual reporting reform project, ensure all consulting expenditure by all relevant NSW government entities is captured in annual reports.

### **By December 2023, NSW Procurement should:**

2. complete work to improve the quality of data collected from suppliers, which NSW Procurement committed to doing in response to our ['Procurement and reporting of consultancy services'](#) report in 2018
3. provide additional guidance to agencies on applying the definition of consulting for their annual reporting on consulting expenditure
4. monitor strategic risks and agency compliance with NSW Procurement policies more comprehensively, including the:
  - use of contract variations
  - use of single source procurements
  - concentration of suppliers.

### **By December 2023, NSW government agencies should:**

5. develop a more strategic approach to the use of consultants, including:
  - providing guidance for staff on when consultants should be used
  - conducting regular assessments of the quality of work done by consultants
  - using consistent approaches for transferring and retaining knowledge from consulting engagements
6. ensure all consulting engagements comply with NSW Procurement Policy, including:
  - specifying the expected cost of all phases of a consulting engagement in the initial approval process
  - only using contract variations when there is a clear and specific justification
7. improve record-keeping practices to ensure all relevant documents relating to consulting engagements are retained in accordance with the *State Records Act 1998* and directions from State Records NSW.

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# 1. Introduction

## 1.1 NSW government agencies' use of consultants

### Overview of the use of consultants in the public sector

Consulting is a type of professional service. Public sector agencies use professional services providers to support their work in a wide range of areas including policy, legal, accounting, IT, communications, human resources, and other specialist disciplines. Reasons for using external service providers include accessing specific knowledge and skills, filling short-term gaps in available resources, and seeking independent advice or assurance.

The NSW Procurement Board's definition of consulting for annual reporting purposes, which is set out in Procurement Board Direction PBD-2021-03 states:

A consultant is defined as a person or organisation engaged under contract on a temporary basis to provide recommendations or professional advice to assist decision-making by management. Generally, it is the advisory nature of the work that differentiates a consultant from other contractors. Services provided under the NSW Government Legal Services Panel are excluded from the definition of a consultant for annual reporting purposes.

NSW Procurement's guidance for agencies states this definition should be used to distinguish consultants from other professional services providers or contractors when reporting on consultant expenditure in annual reports. The guidance also provides some illustrative examples of types of work that would or would not meet the definition of consulting.

Annual reporting regulations in New South Wales require most government agencies to disclose information about their consulting engagements in their annual reports. The Annual Reports (Departments) Regulation 2015 and the Annual Reports (Statutory Bodies) Regulation 2015 require agencies to disclose the cost of consultant engagements above \$50,000 by individual projects in their annual reports. For consulting engagements valued at less than \$50,000, agencies can report in aggregate form, without the details of individual firms or projects.

Agencies are also required by the *Government Information (Public Access) Act 2009* to publicly report all current contracts that have (or are likely to have) a value of \$150,000 or more (Class 1 contracts), including on the NSW Government tender website. Information about a Class 1 contract must be disclosed within 45 working days after the contract becomes effective.

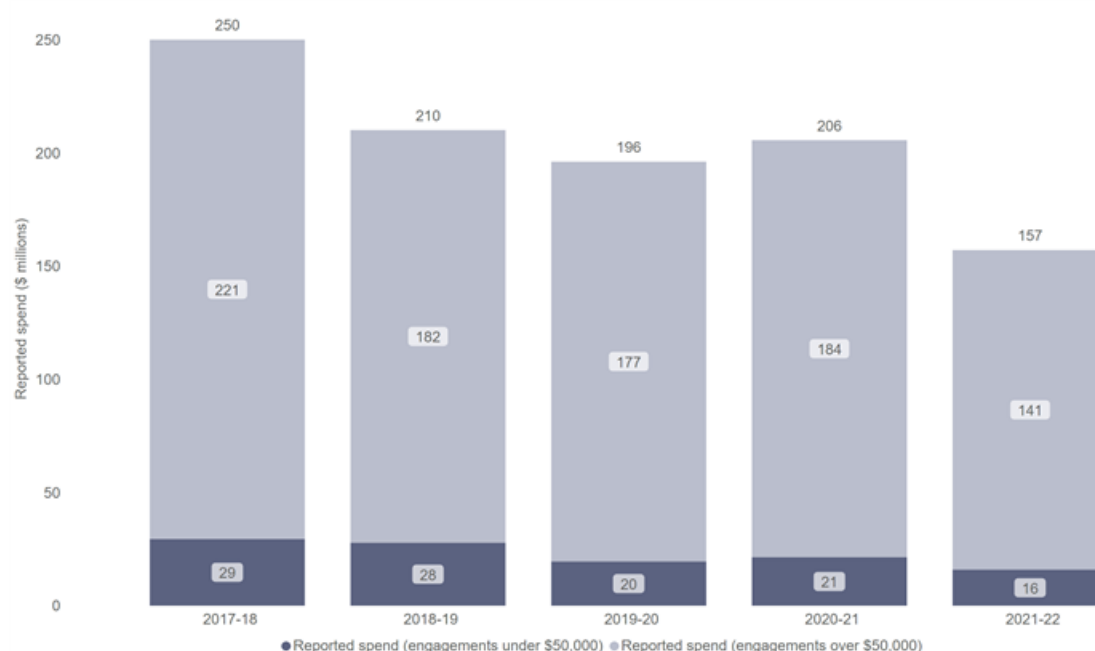
Annual reporting of agency expenditure on consultants has some limitations. Certain agencies are exempt from the requirement to disclose their consulting expenditure in annual reports. For example, NSW Local Health Districts (LHD) are not required to produce annual reports, and the Ministry of Health does not include LHD consulting expenditure in its annual report. We note that the *Government Sector Finance Legislation (Repeal and Amendment) Act 2018 No 70* will amend the *Health Services Act 1997* to specify that annual reporting information for any or all NSW Health entities may be included in the annual reporting information prepared by the Ministry of Health under the *Government Sector Finance Act 2018*. This provision is expected to commence on 1 July 2023. In addition, annual report disclosures require agencies to interpret the NSW Procurement Board definition of consulting. Agencies may interpret these differently, leading to inconsistencies in reporting across the public sector.



Despite these limitations, agency disclosures in annual reports are the only source of information that specifically identifies both recurrent and capital-related consulting expenditure by NSW government agencies. Based on this data and acknowledging its limitations, total reported spending on consultants by NSW government agencies from 2017–18 to 2021–22 was over \$1 billion during this period, an average of over \$200 million per year. This was spent across more than 10,000 consulting engagements in this period. NSW government agencies reported engaging more than 1,000 firms to provide these consulting services.

Exhibit 1 shows the spending on consultants disclosed by agencies in annual reports (that is, including recurrent and capitalised spending) between 2017–18 and 2021–22. This indicates that spending decreased from around \$250 million in 2017–18 to \$210 million in 2018–19. Reported expenditure remained similar in the next two years. The decrease of almost \$49 million in reported consulting expenditure from 2020–21 to 2021–22 is largely attributable to a change in Infrastructure NSW's application of the definition of consulting for annual reporting purposes to align with Procurement Board Direction PBD 2021-03. Over the previous four years, Infrastructure NSW's reported consulting expenditure averaged \$30.6 million, but was only \$1.9 million in 2021–22. In addition, Exhibit 1 does not include annual report disclosures from the Department of Education for 2021–22. The Department of Education prepares its annual report on a calendar year basis, rather than by financial year, so the information for the most recent year was not available at the time of reporting. Over the previous four years, the Department of Education's reported consulting expenditure averaged \$7.8 million per year. We comment on differences between agencies in the application of the definition of consulting further in Chapter 2 of this report.

**Exhibit 1: Spending on consultants by NSW government agencies in annual reports, total (recurrent and capital), 2017–18 to 2021–22 (\$ millions)**

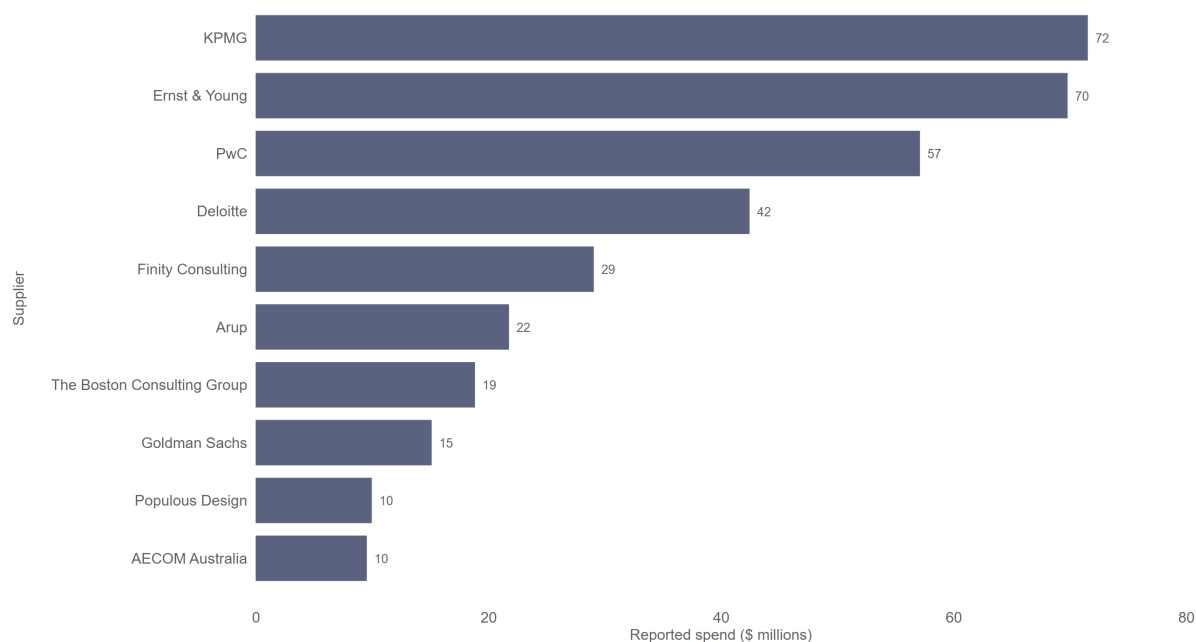


Note: Consulting services provided through the NSW Government Legal Services Panel are not captured within annual reports, unless the agency has voluntarily disclosed this information. Data from the Department of Education in 2022 is not included, as its annual report is prepared on a calendar year basis and was not available at the time of reporting.

Source: Audit Office data collection from NSW government agencies' annual report disclosures, 2017–18 to 2021–22 (unaudited).

The ten firms that were paid the most by NSW government agencies for consulting services between 2017–18 and 2021–22, as disclosed in agency annual reports, are shown in Exhibit 2. NSW government agencies paid around \$72 million to KPMG during this period, an average of around \$14 million per year. Ernst & Young received \$70 million during the same period, followed by PwC (\$57 million) and Deloitte (\$42 million). This analysis excludes reported consulting expenditure on law firms because legal services are excluded from the definition of consulting in PBD 2021-03. Further details of the distribution of expenditure on consulting services are included in Chapter 2.

**Exhibit 2: Spending on consultants by NSW government agencies in annual reports (recurrent and capital), by the top ten suppliers, 2017–18 to 2021–22 (aggregated, \$ millions)**



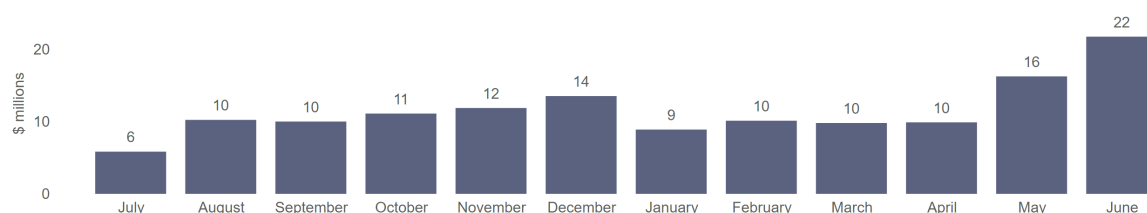
Notes: The analysis excludes spending on consulting engagements that were valued at less than \$50,000 because agencies are not required to report the details of these engagements individually in their annual reports.

The analysis also excludes consulting spending on law firms because legal services are excluded from the definition of consulting in PBD 2021-03, and spending made to other government agencies, because this spending is eliminated on consolidation of all agencies into the Total State Sector Accounts.

Source: Audit Office data collection from NSW government agencies' annual report disclosures, 2017–18 to 2021–22 (unaudited).

To examine spending patterns across the year, we used monthly returns data from Prime. We used Prime data for this analysis because annual report disclosures do not provide an accurate picture of the month in which expenditure was incurred. Our analysis shows a large increase in agency spending on consultants in the final months of the financial year, and a smaller peak at the end of the calendar year, as shown in Exhibit 3. Staff we spoke to at agencies included in this audit noted that spending increases overall toward the end of each financial year. However, our analysis found the proportional increase in consultant spending was higher than the proportional increase in overall government expenditure.

**Exhibit 3: Average monthly recurrent spending on consultants by NSW government agencies, 2017–18 to 2021–22 (aggregated, \$ millions)**



Note: The audit has excluded recurrent consulting spend of 25 agencies, as this was not available on a monthly basis. As such, total consulting spend in this graph will not reconcile to recurrent consulting spend in Exhibit 10.

Source: Audit Office analysis of Prime data on recurrent consulting spend (provided by NSW Treasury).

## Legislation and policies governing the use of consultants in the public sector

There are several pieces of legislation, as well as regulations, policies and frameworks, that apply to the use of consultants in the public sector. These include:

- the *Public Works and Procurement Act 1912*, the *Government Information (Public Access) Act 2009*, Annual Reports (Departments) Regulation 2015, and the Annual Reports (Statutory Bodies) Regulation 2015
- Procurement Board Directions (PBD)
- NSW Procurement rules, frameworks and guidelines
- prequalification schemes, such as the Performance and Management Services Scheme (P&MS Scheme).

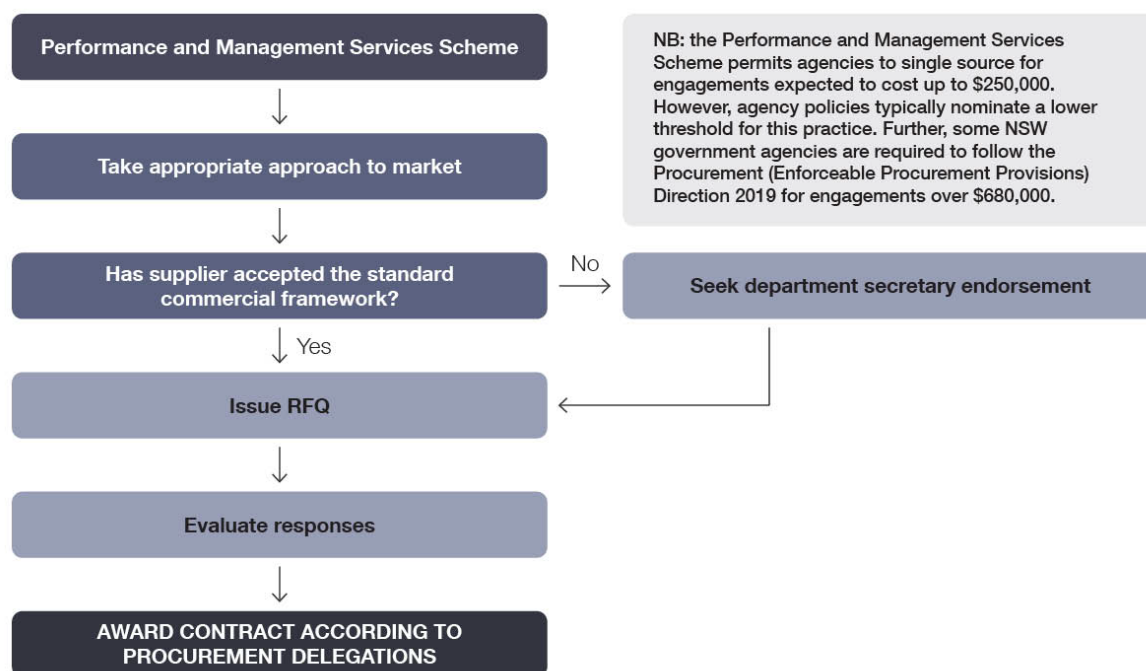
The *Public Works and Procurement Act 1912* (the Act) provides the legislative framework for agency procurement and the NSW Procurement Policy Framework summarises the policy settings for procurement. The Act establishes the NSW Procurement Board and outlines its objectives and functions. The roles and responsibilities of the NSW Procurement Board, NSW Procurement, and NSW government agencies are summarised in Exhibit 4.

### Exhibit 4: Roles and responsibilities for procurement in New South Wales

Agency	Roles and responsibilities
NSW Procurement Board	Oversee the procurement of goods and services. Develop and implement procurement policies and directions in line with the <i>Public Works and Procurement Act 1912</i> . Monitor agencies' compliance with procurement directions or policies. Collect, analyse and publish procurement data.
NSW Procurement	Ensure agencies have resources and capabilities to engage professional services in line with the <i>Public Works and Procurement Act 1912</i> and NSW Procurement Board Directions. Manage the professional services suppliers under the P&MS Scheme. Report annually to the Minister for Finance on the engagement of professional services.
NSW government agencies	Conduct procurement of consultants in line with relevant legislation and policies. Report on expenditure on consulting services, in line with annual reporting legislation and the <i>Government Information (Public Access) Act 2009</i> .

The NSW Procurement Board is responsible for setting procurement policy, issuing directions to support policies, and monitoring agency compliance with policy and directions. NSW Procurement supports agencies to comply with the Board's policies and achieve their business objectives. A 'devolved governance model' is used for procurement in New South Wales. This means the heads of government agencies are responsible for managing the agency's procurement in line with procurement laws and policies. The NSW Procurement Board issues PBDs which mandate how government agencies procure goods and services. A summary of the process for agencies engaging consultants is summarised in Exhibit 5.

## Exhibit 5: Process for engaging consultants (simplified)



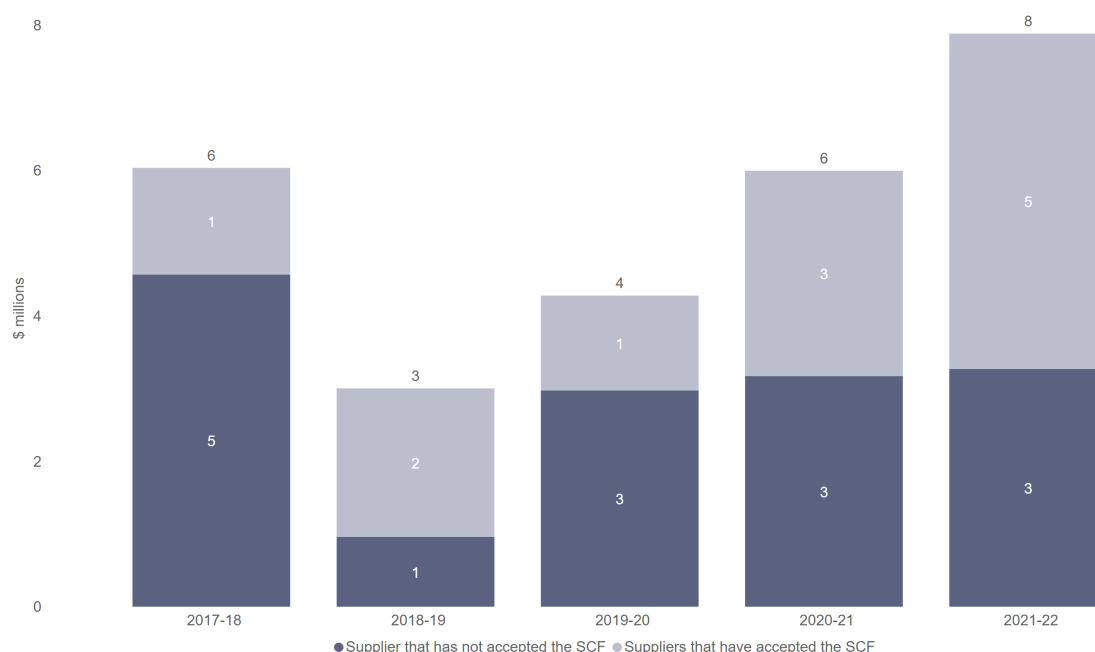
Source: Adapted from NSW Procurement resources.

The requirements for the engagement of professional service suppliers, including consultants, are specified in PBD 2021-03 'Engagement of professional services suppliers'. NSW Procurement oversees the Standard Commercial Framework (SCF) which applies to most types of professional services. Specialised services (such as crisis management and communications), infrastructure services, ICT, and legal services are procured through other schemes, such as the ICT Services and Legal Services Panels.

The SCF sets out the maximum amounts that consultants can charge for services and applies to the P&MS Scheme. NSW Procurement's analysis indicates that its implementation of capped rates for consultants has resulted in 'avoided costs' of around \$150 million since 2017–18. NSW Procurement used actual spending data from the BAS dashboard from 2016 to calculate a weighted average rate to use as a baseline. This baseline rate was compared to the actual rates charged from January 2018 onward, to estimate an 'avoided cost' that could be attributed to the introduction of the SCF capped rates. The P&MS Scheme is a prequalification scheme with the largest consultancy expenditure. It provides a pool of pre-approved suppliers which are categorised into engagement types. Suppliers that have not accepted the SCF for the P&MS Scheme can still be engaged but are subject to additional rules and different governance arrangements. This includes the requirement for department secretary approvals, which has applied since September 2021. Suppliers that have not accepted the SCF are Boston Consulting Group, Cambridge Economic Policy Associates, L.E.K. Consulting, McKinsey & Company, Partners in Performance, Bain & Company, and EY Port Jackson Partners.

Exhibit 6 shows estimated expenditure in excess of the charge rates set out in the SCF for the top 19 suppliers. The expenditure data in this exhibit is drawn from NSW Procurement's BAS dashboard, which collects expenditure data on these suppliers. This includes 18 suppliers that have accepted the SCF and one supplier that has not. Total expenditure in excess of the SCF rates between 2017–18 and 2021–22 was \$27 million. This represents about 3% of the total expenditure reported by the top 19 suppliers in this period. As noted above, this excess expenditure is allowed when approved by the relevant department secretary.

**Exhibit 6: Total expenditure in excess of SCF charge rates for the 19 suppliers tracked through the BAS dashboard, 2017–18 to 2021–22 (\$ millions)**



Note: Calculations are based on estimated resource type and usage (days) reported by suppliers at the start of the engagement and can differ from actual invoiced amounts.

Source: Audit Office analysis of BAS dashboard spend (NSW Procurement – unaudited).

## Previous reviews on the use of consultants by Australian Governments

In 2018, we conducted an audit on the procurement and reporting of consultancy services that assessed how 12 NSW government agencies complied with procurement requirements and how NSW Procurement supported the functions of the NSW Procurement Board. This audit found that none of the 12 agencies fully complied with NSW Procurement Board Directions on the use of consultants and that the NSW Procurement Board was not fully effective in overseeing and supporting agencies' procurement of consultants. Specific findings included that:

- agencies applied the definition of consultant inconsistently, which affected the accuracy of reporting on consultancy expenditure
- there was inadequate guidance from NSW Procurement for agencies implementing the procurement framework, with a need for additional tools, automated processes, and other internal controls to improve compliance
- NSW Procurement had insufficient data for effective oversight of procurement and did not publish any data on the procurement of consultancy services by NSW government agencies.

Audits and other reports on the use of consultants in comparable Australian jurisdictions have identified issues with government use of consultants, including:

- potential overuse of consultants, with consultants performing work that government agencies staff could be doing
- concentration of suppliers, with the majority of spending on the top four to six
- inadequate information about the use of consultants.

The Independent Review of the Australian Public Service conducted in 2019 included a focus on the use of consultants. Its key findings included:

- spending on contractors and consultants had increased significantly in the previous five years, while spending on public sector staff remained steady
- data on the use of consultants was not gathered or analysed centrally
- consultants were increasingly being used to perform work that was previously considered core public service work, such as program management.

## 1.2 About this audit

The objective of this audit was to assess how effectively NSW government agencies procure and manage consultants in line with the NSW Government's consultant savings targets.

This was addressed by assessing whether:

- the NSW Procurement Board and NSW Procurement effectively supports and monitors agencies procuring and managing consultants
- selected agencies effectively procure consultants
- selected agencies effectively manage and report on their use of consultants.

Our audit methods included analysing whole-of-government procurement data from the period 2017–18 to 2021–22. There are four different sources of data that contain information about spending on consultants by NSW government agencies: the State's financial consolidation system (Prime), disclosures of spending on consultants in NSW Government agency annual reports, and two systems operated by NSW Procurement (the Business Advisory Services (BAS) dashboard and Spend Cube). Each of these data sources serves a different purpose, and collects and categorises information differently. None of them provide a complete source of data on spending on consultants, either in their own right or collectively. This audit used agency disclosures in annual reports to assess total spending on consultants, because this is the most comprehensive source of data on total consulting spending, disclosing both 'recurrent' and 'capitalised' spending on consultants. This data nevertheless still has some limitations, as certain agencies are exempt from the requirement to disclose their consulting expenditure in annual reports, and agencies' application of the NSW Procurement Board definition of consulting can vary. Information on recurrent consulting expenditure from the Reports on State Finances from 2020–21 and 2021–22 was used to assess whether NSW government agencies had achieved specified savings targets announced in the 2019 policy commitment, because these targets were set against recurrent expenditure (that is, excluding capitalised expenses).

The audit also assessed the way ten government agencies used consultants during the audited period (2017–18 to 2021–22) by examining a sample of 82 consultant engagements by these agencies. The consulting engagements included in our sample covered a wide range of policy areas and projects, including the establishment of government agencies, and the development, implementation and evaluation of major policies.

Our audit considered progress made since our 2018 audit on the procurement and reporting of consultancy services. This audit did not assess the use of contingent labour or contractors. Our report '[Internal Controls and Governance 2022](#)', tabled in December 2022, included a review of some aspects of the way the largest 25 NSW government agencies procure and report on the use of consultants. Other relevant previous audits include our '[State Finances 2021](#)' report and our performance audit report titled '[Design and implementation of the Transport Asset Holding Entity](#)'.



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## 2. Supporting and monitoring the use of consultants

This chapter outlines our findings on the role of NSW Procurement in overseeing the use of consultants by NSW government agencies.

### 2.1 Guidance and support

#### NSW Procurement administers a detailed framework for procurement

The NSW Government Procurement Policy Framework sets out a three-phased approach to procurement, which also applies to the procurement of consultants. This is comprised of planning, sourcing and managing, as shown in Exhibit 7. The Procurement Policy Framework provides detailed guidance to agencies, with a combination of mandatory and recommended steps.

#### Exhibit 7: Procurement phases in the NSW Government Procurement Policy Framework

Phase	Description
Planning	Planning requirements such as annual procurement plans, strategies for focus areas such as Aboriginal procurement, and risk management. Decisions about procurement methods, including rules and thresholds for procurement types such as limited tenders.
Sourcing	Approaches to selecting suppliers and the use of standard contracts. Probity requirements including those for high-risk methods such as direct dealing. Requirements for tender documentation.
Managing	Contract management, including managing extensions or other variations. Monitoring and reporting requirements.

Source: Adapted from NSW Government Procurement Policy Framework.

#### NSW government agencies do not report on consulting expenditure consistently

Most NSW government agencies are required to report spending on consultants in their annual reports. Our review of a sample of 36 professional services engagements that agencies did not report as consulting expenditure indicates that the audited agencies did not apply the NSW Procurement Board's definition of consultant consistently. In the sample we reviewed, we found eight examples of expenditure (22% of the sample) that in our view met the NSW Procurement Board's definition of consulting expenditure but were not reported. While this sample is not statistically representative, our analysis indicates potential under-reporting of expenditure on consultants by some agencies.

In our 2018 report on the way agencies procured and reported on consultancy services, we noted that the definition of consultant was interpreted and applied inconsistently by the audited agencies. This resulted in inaccuracy in reporting on the use of consultants in annual reports across the sector. We recommended that NSW Procurement align the definition of a consultant for procurement and annual reporting purposes. NSW Procurement responded to this recommendation by releasing an updated definition which, as outlined in the introduction of this report, emphasises the advisory nature of consulting work as the key factor that distinguishes it from other professional services. This definition was developed after consultation with NSW government agencies, and it is broadly consistent with definitions used in comparable jurisdictions in Australia and overseas. However, staff from the agencies included in this audit noted that distinguishing consulting expenditure from spending on other types of professional services remains challenging.

One reason for this is the NSW Procurement guidance makes a distinction between 'advisory' work, which it states should be reported as consulting expenditure, and 'routine' work that involves the delivery of services. For example, according to NSW Procurement's guidance for program evaluations, a provider engaged for 'high-level policy advice on outcomes of a government program' would meet the definition of a consultant, but a provider engaged to 'analyse data regarding a program under the direction of an agency' would not. Similarly, engaging a professional services provider 'to develop training programs' would be considered consulting, but engaging a provider to deliver the training programs would not.

In each of these examples, both types of work could be conducted by the same provider within a single engagement. In our review of a sample of 36 engagements that were not classified as consulting by agencies, we identified six examples that could reasonably have been classified as either consulting expenditure or not consulting based on this guidance. This is because the services provided included both advice to government and routine service delivery. Agencies included in this audit stated that additional guidance to improve consistency across government is needed.

Some comparable Australian jurisdictions provide more detailed guidance about distinguishing consulting engagements from other types of professional services. For example, the guidance note provided by the Victorian Government includes discussion of nuances relating to consultants and contractors in areas including research, policy and program implementation, technical and professional services communications, and learning and development.

## 2.2 Reporting and analysis

### There is no single comprehensive data source on all consulting expenditure

There are four different sources of data that contain information about spending on consultants by NSW government agencies. The four sources of data are summarised in Exhibit 8. Each of these data sources serves a different purpose, and collects and categorises information differently. None of them individually or collectively provide a comprehensive source of data on spending on consultants.

#### Exhibit 8: Data sources on consulting expenditure by NSW government agencies

Description	Limitations for measuring consulting expenditure
<b>Annual reports</b>	
<p>Schedule 1 to the Annual Reports (Departments) Regulation 2015 and Annual Reports (Statutory) Bodies Regulation 2015 requires agencies to report on the use of consultants. For engagements that cost \$50,000 or more this includes reporting details on the name of the consultant, the title of the project and the actual cost of engaging the consultant. For engagements that cost less than \$50,000 this includes reporting in aggregate on the total number of engagements and the total cost of those engagements.</p> <p>Annual report data is compiled and reported by agencies. It is the only data source that itemises spending on consultants above \$50,000 as a specific category.</p> <p>As part of this audit, we have collected this information from agency annual reports and used it to perform analysis.</p>	<p>There are important limitations with regard to this data, including:</p> <ul style="list-style-type: none"> <li>inconsistencies in how the definition of consultants is applied and therefore reported by agencies. This also impacts the comparability of annual report data across agencies</li> <li>exclusion of particular agencies with significant consulting spending from this public reporting requirement. For example, LHDs do not report on their spending on consultants and the Ministry of Health does not include this information in its annual reports. We estimate that agencies that are not required to disclose consulting spending in annual reports spent over \$170 million between 2017–18 and 2021–22</li> <li>services provided under the NSW Government Legal Services Panel are excluded from the definition of a consultant for annual reporting purposes, although some agencies have voluntarily disclosed this information.</li> </ul>
<b>Prime</b>	
<p>Prime is the State's financial consolidation system. Prime serves two main purposes: aiding in producing the Total State Sector Accounts, and producing the NSW Budget. A Prime account has been created to capture recurrent consultancy expenditure that agencies map their consulting expenditure to. Agency financial data is uploaded to Prime periodically.</p> <p>Prime can provide information on total recurrent spending that agencies have classified as consultancy within a given period of time, but does not include information on individual consulting engagements or the specific details of these engagements.</p>	<p>The Prime account for recurrent consulting expenditure does not include expenditure on consulting work that agencies have 'capitalised', such as consulting work completed as part of the delivery of an infrastructure project. While it is appropriate for accounting purposes to exclude capitalised expenditure from this Prime account, it cannot be used to provide a complete view of total consulting spending across the NSW public sector.</p> <p>There are also important limitations with regard to this data, including:</p> <ul style="list-style-type: none"> <li>inconsistencies in how the definition of consultants is applied by agencies</li> <li>mapping of consulting expenditure by agencies to other Prime accounts, which is discussed further below.</li> </ul>

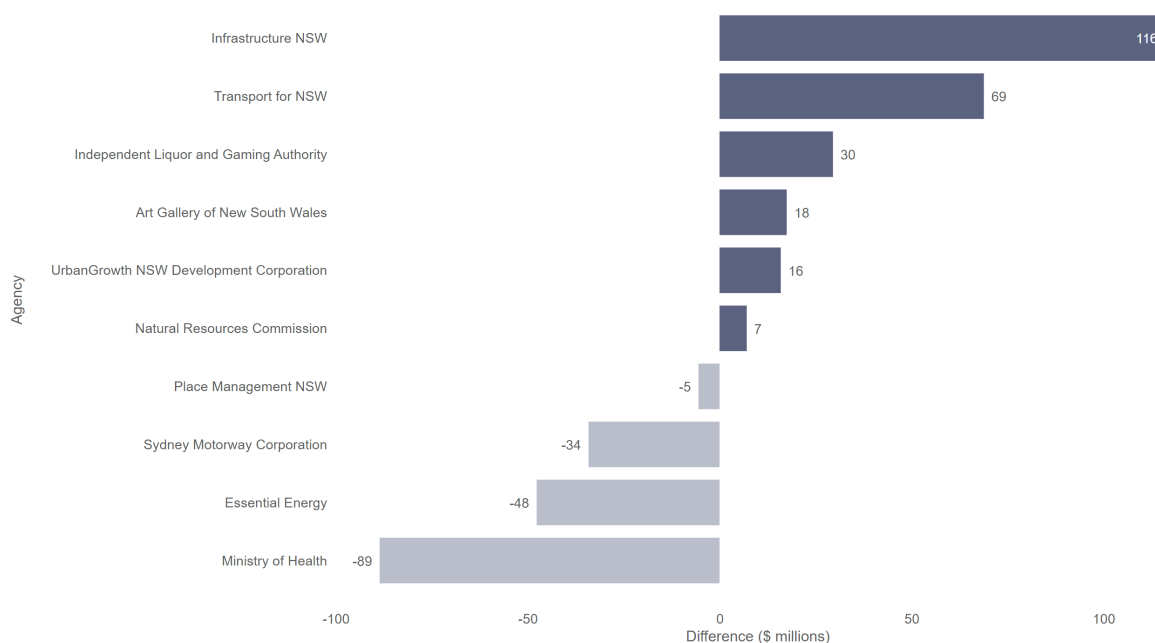
Description	Limitations for measuring consulting expenditure
<b>NSW Procurement – BAS and Spend Cube</b>	
<p>NSW Procurement collects consultant data that mainly focuses on major suppliers from the P&amp;MS Scheme. To capture this information, NSW Procurement maintains two sets of data:</p> <ul style="list-style-type: none"> <li>the BAS reporting dashboard - compiled from reports submitted by the top 19 suppliers on the P&amp;MS Scheme. NSW Procurement advised the audit that this covers around 70% of P&amp;MS Scheme spend</li> <li>the 'Spend Cube' - compiled from accounts payable invoice level data from the majority of general government sector agencies. For the purposes of this audit, NSW Procurement provided a filtered extract of invoice-level data that has been categorised as 'professional services'. This dataset was further sub-categorised into 'financial services', 'technical professional services' and 'advisory services', which has some overlap with the NSW Procurement Board's definition of consulting. This dataset includes spending on the P&amp;MS Scheme, but also includes suppliers sourced from other prequalification schemes or procurement actions.</li> </ul>	<p>These datasets collect information on professional services spending, but do not classify the data in a way that allows consultancy spending as defined in PBD 2021-03 to be identified.</p> <p>These datasets cannot be reconciled to consulting spend reported in Prime, nor to consulting spend reported in agency annual reports.</p>

Source: Audit Office analysis of information provided by audited agencies (unpublished).

## The key data sources on consulting expenditure serve different purposes and record information differently

There are differences between recorded spending on consulting in Prime and in agency disclosures in annual reports that impact on the reliability and completeness of both as data sources on consulting expenditure. These differences are due to the different requirements for reporting in each of these systems. NSW Treasury considers data collected and reported in the State's financial consolidation system, Prime, to be the most accurate source of data on consulting expenditure. However, the Prime account for recurrent consulting expenditure excludes some types of expenditure that meets the NSW Procurement Board definition of consulting, as described in Exhibit 8. Our analysis comparing data in agency annual report disclosures and Prime shows that some agencies report far more spending in their annual reports than what is recorded in Prime, while others report far less, as shown in Exhibit 9. In this chart, positive differences mean spending on consulting disclosed in an agency's annual report was higher than reported in Prime. Negative differences mean that the consultant spending disclosed in an agency's annual report was less than what was reported in Prime or the agency had not prepared an annual report.

**Exhibit 9: Differences between reported consultant expenditure in agency annual report disclosures (recurrent and capital) and recurrent consulting expenditure in Prime, 2017–18 to 2021–22 (aggregated, \$ millions)**



Notes: This graph highlights agencies where there was a difference of more than \$5 million, in aggregate, over the five-year period. Positive differences mean that, in aggregate, over the five-year period consulting spend reported in the relevant agency's annual report was higher than reported in Prime. While negative differences mean that, in aggregate, over the five-year period consulting spend reported in the relevant agency's annual report was less than reported in Prime. The reasons for these differences is explained below.

Source: Audit Office analysis of disclosures of consultant spending in agency annual reports (unaudited) and Prime data (audited).

The main reason for the positive differences shown in Exhibit 9 is the 'capitalisation' of some consulting expenditure for accounting and financial reporting purposes, for example, for work related to capital works such as building new infrastructure. In these cases, the capitalised consultancy spending was reported in the agency's annual report, but was not captured in the Prime account identifying recurrent spending on consultants.<sup>3</sup> As the State's financial consolidation system, Prime captures all financial information. However, capitalised consulting expenditure is recorded within various capital accounts, and is not identifiable within these accounts.

<sup>3</sup> Other reasons for the positive differences included agency coding of consulting spend to multiple general ledger accounts, which had been identified and reported in the agency's annual report, but had not been mapped to the Prime consultancy account. Transport for NSW, the Independent Liquor and Gaming Authority and the Department of Education noted this as a contributing factor.

The main reason for the negative differences shown in Exhibit 9 was that some agencies are not required to report publicly on the use of consultants. This results in some consulting spending being recorded in Prime, but not in an annual report. For example:

- There is no legislative requirement for Local Health Districts and some other entities in the Health cluster, besides the Ministry of Health, to publish individual annual reports. As a result, itemised spending and other information on the use of consultants, estimated at over \$89 million over the five-year period, are not included in any public reporting. We note that the *Government Sector Finance Legislation (Repeal and Amendment) Act 2018 No 70* will amend the *Health Services Act 1997* to specify that annual reporting information for any or all NSW Health entities may be included in the annual reporting information prepared by the Ministry of Health under the *Government Sector Finance Act 2018*. This provision is expected to commence on 1 July 2023.
- Essential Energy received an exemption from the Treasurer from several reporting requirements under the annual reports legislation, including reporting on the use of consultants, on the basis that it competes in the National Electricity Market. Spending and other information on the use of consultants, estimated at \$48 million over the five-year period, are not included in any public reporting.
- Landcom has an exemption from the Treasurer that allows it to publish the total amount spent on consultants, along with a summary of the main purposes of the engagements, rather than publishing details of each engagement valued at more than \$50,000.
- Sydney Motorway Corporation was also not within the scope of annual reporting legislation up to the date of its privatisation on 27 September 2018.

Agency annual reporting requirements are currently set out in the *Annual Reports (Statutory Bodies) Act 1984* and *Annual Reports (Departments) Act 1984*. However, the annual reporting provisions in the *Government Sector Finance Act 2018* are expected to commence for the 2022-23 reporting period. NSW Treasury is currently considering feedback from stakeholders about annual reporting requirements from this period onwards. NSW Treasury intends to develop regulations and Treasurer's Directions to prescribe ongoing and new annual reporting requirements.

### **NSW Procurement has made some progress in improving data quality since our audit in 2018**

Our audit in 2018 recommended that NSW Procurement enhance the quality, accuracy and completeness of data collection and report on the outcomes of their analysis and monitoring activities. NSW Procurement has overseen the expansion of the SCF in recent years. Staff at NSW Procurement advise they have conducted several projects to improve data quality within the existing sources of data on procurement.

NSW Procurement committed to building a sector-wide vendor management system to improve data quality and visibility of consultant and professional services spend. During the audit in 2018, NSW Procurement advised that a vendor management system would provide a single system for agencies and suppliers to process transactions for professional services engagements. This could be configured to monitor compliance with the NSW Government Procurement Policy Framework.

During this audit, NSW Procurement advised that it has not yet implemented a vendor management system. Its reasons included reprioritisation of effort during the COVID-19 period and challenges with agency coordination. We did not assess the implementation of a vendor management system for this audit. NSW Procurement advised that it has in-principle agreement from agencies to implement this, but it has not committed to a timeline for implementation.

### **Based on available data, it is highly unlikely that NSW government agencies will achieve the 2019 policy commitment to reduce spending on consultants**

In early 2019, the NSW Government made a policy commitment to reduce consultancy expenses by 20% each year, over four years, from 2019–20 (excluding capital-related consultancy expenses). This was set out in the [Parliamentary Budget Office's 2019 Policy Costings](#). Achieving this commitment would require a total of \$99.6 million in savings over four years. The savings estimate was calculated by the Parliamentary Budget Office using forecasts of consultancy expenditure from Prime provided by NSW Treasury.



NSW Treasury advised that the policy was implemented by reducing agency budgets in Prime in line with the targets. However, information on recurrent consulting expenditure from the Reports on State Finances from 2020–21 and 2021–22 indicates that it is highly unlikely that agencies will achieve the savings targets set out in the policy commitment. Exhibit 10 uses data from the Parliamentary Budget Office costing from 2019 and actual recurrent consultant spending data recorded in the Reports on State Finances from 2020–21 and 2021–22. This data shows spending on consultants was higher than target levels in each of the first three years.

NSW government agencies were expected to reduce spending on consultants by \$99.6 million over four years from 2019–20, compared to forecast expenditure. According to actual spending data, agencies missed the spending reduction targets by \$98.7 million in the first three years from 2019–20. This means that NSW government agencies would need to limit spending on consultants to less than \$1 million in 2022–23 to meet the four-year savings target. We did not see any evidence that the financial data on actual expenditure was used to inform formal reporting on NSW government agencies' progress toward achieving the savings set out in the policy commitment.

**Exhibit 10: Comparison of forecast, target and actual recurrent spending on consultants, 2019–20 to 2021–22 (based on data from Reports on State Finances and Parliamentary Budget Office)**

Year	Forecast spending before policy commitment (\$) <sup>#</sup>	Target spending after policy commitment (\$) <sup>^</sup>	Actual spending recorded in Prime (\$) <sup>&lt;</sup>	Amount actual spending was over target (\$)
<b>2019–20</b>	122,555,000	98,044,000	121,000,000	<b>22,956,000</b>
<b>2020–21</b>	121,030,000	96,824,000	147,000,000	<b>50,176,000</b>
<b>2021–22</b>	131,780,000	105,424,000	131,000,000	<b>25,576,000</b>
<b>3-year total</b>	<b>375,365,000</b>	<b>300,292,000</b>	<b>399,000,000</b>	<b>98,708,000</b>

<sup>#</sup> Source: Parliamentary Budget Office 'Election Policy Costing Y076', p.3.

<sup>^</sup> Source: Derived from Parliamentary Budget Office 'Election Policy Costing Y076', p.3 (figures in this column show the forecast spending minus the impact of a 20% reduction shown in the Parliamentary Budget Office costing.

<sup><</sup> Source: General Government Sector spend reported in the NSW Treasury 'Report on State Finances 2021–22', p.6 - 40 and NSW Treasury 'Report on State Finances 2020–21', p.6 - 40.

The target for reducing spending on consultants formed part of a broader NSW Government policy commitment to reduce spending on procurement by \$729 million over four years from 2019–20. NSW Treasury is responsible for coordinating the delivery of this commitment. This audit did not assess whether NSW government agencies achieved this target for spending reductions on procurement more broadly.

As context for the above figures, we note that according to the Report on State Finances 2019–20, the actual expenditure on consultants in 2018–19, the year before the policy commitment was implemented, was approximately \$151 million.

We also note that there has been a series of natural disasters and emergencies since 2019–20, including bushfires, floods and the COVID-19 pandemic. Staff at some agencies suggested that this may have led to an increase in expenditure on consultants during this time. Our review of project descriptions in consulting expenditure disclosed by agencies in annual reports during the audited period indicates that natural disasters or emergency responses did not have a significant impact on expenditure on consulting. The total cost of engagements that were disclosed in agency annual reports that were clearly linked to natural disasters or emergencies was around \$8.3 million. As noted above, some agencies are not required to produce annual reports, so their expenditure on consulting is not reported publicly. We cannot verify comments from some agency staff that increased spending on consultants may be attributable to natural disasters and the COVID-19 pandemic, because while expenditure of this type would have been captured in Prime, it cannot be identified because it is not itemised. We note that spending due to the employment of additional contractors would be recorded separately to spending on consultants.

## 2.3 Risk management

### Spending on consultants is concentrated within a small number of firms

According to disclosures of spending on consultants in agency annual reports between 2017–18 and 2021–22, four professional services firms accounted for around 27% of total spending on consultants. During this period, NSW government agencies reported spending around \$72 million on consulting work by KPMG, \$70 million on work by Ernst & Young, \$57 million on work by PwC and \$42 million on work conducted by Deloitte.

The top four firms featured prominently in consulting engagements disclosed by agencies in each of the years covered by this audit. Exhibit 11 shows that KPMG, Ernst & Young, PwC, and Deloitte were each among the top five providers of consulting services (ranked by the value of engagements from NSW government agencies) in every year from 2017–18 to 2021–22. Only three other firms featured in the top five over this period. Two of those firms (Goldman Sachs and Populous Design) featured in one year each due to large consulting engagements on separate major projects. This analysis excludes consulting expenditure on law firms because legal services are excluded from the definition of consulting in PBD 2021-03.

**Exhibit 11: Top five firms by NSW government agency consulting expenditure, by year, 2017–18 to 2021–22**

Ranking	2017–18	2018–19	2019–20	2020–21	2021–22
1	PwC	Ernst & Young	KPMG	KPMG	Ernst & Young
2	Ernst & Young	PwC	Ernst & Young	Ernst & Young	PwC
3	Goldman Sachs	Deloitte	Populous Design	PwC	KPMG
4	KPMG	KPMG	PwC	Deloitte	Deloitte
5	Deloitte	Finity Consulting	Deloitte	Finity Consulting	Finity Consulting

Note: The analysis excludes consulting expenditure on law firms because legal services are excluded from the definition of consulting in PBD 2021-03, and spending made to other government agencies, because this spending is eliminated on consolidation of all agencies into the Total State Sector Accounts.

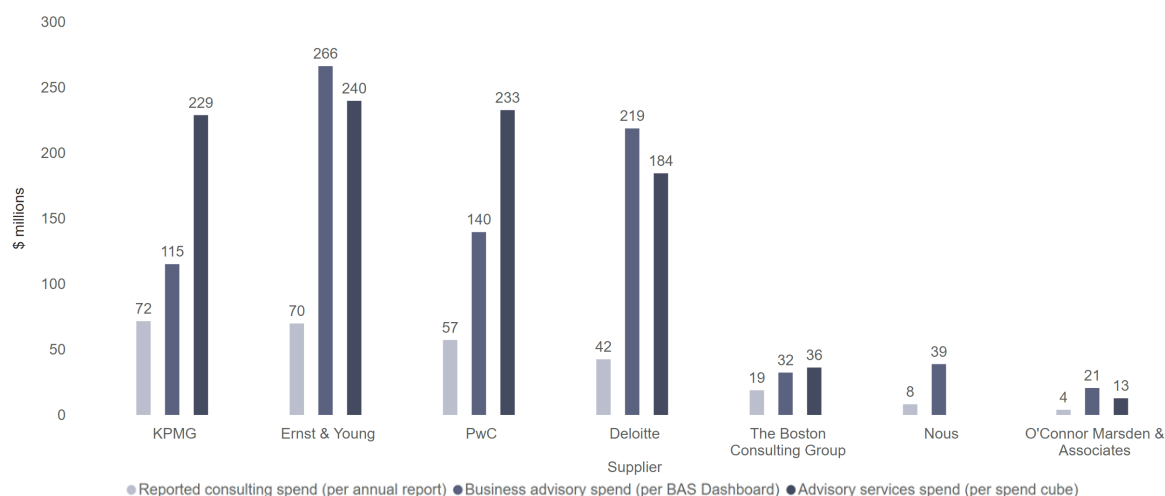
Source: Audit Office data collection from NSW government agencies' annual report disclosures, 2017–18 to 2021–22 (unaudited).

The concentration of consulting engagements within a small number of firms appears to be increasing. The number of firms that accounted for 50% of total spending dropped from 11 in 2017–18 to eight in 2021–22. The remaining 50% of spending on consultants went to over 1,000 other firms.

When done strategically, frequent engagement of a small number of providers may have some benefits for agencies, such as helping them to negotiate lower rates. However, the concentration of consulting engagements creates risks, including a potential reduction in the independence of advice and over-reliance on a limited number of providers for advice on specific topics. Our previous reports, including the 'State Finances 2021' report, highlighted this risk in relation to the use of consultants during the design and implementation of the Transport Asset Holding Entity.

Our analysis of NSW government agency spending in the broader category of professional services indicates that spending on the top four firms is also significant in this category. Exhibit 12 shows agency spending by provider in the category of 'business advisory services'. It compares expenditure data from two data sources, the BAS dashboard and Spend Cube, to reported spending on consultants from agency annual reports (engagements of \$50,000 and over). The 'business advisory services' category measures spending on consulting but also includes other services such as accounting, internal audit, governance and risk management, and HR and recruitment services. Based on these data sources, total spending on the top four professional services firms was recorded as \$740 million in the BAS dashboard and \$886 million in Spend Cube between 2017–18 and 2021–22.

**Exhibit 12: Spending on consulting (annual report disclosures), business advisory services (BAS dashboard), and advisory services (Spend Cube) by NSW government agencies to selected suppliers, 2017–18 to 2021–22 (\$ millions)**



Note: Itemised consulting spend in annual reports only incorporates engagements that cost \$50,000 or more, whereas BAS dashboard spend and Spend Cube – advisory services spend will also incorporate spend on engagements that are under \$50,000. As shown in Exhibit 1, the value of engagements over \$50,000 makes up 89% of total spend on consultants reported in annual reports. Consulting services provided through the NSW Government Legal Services Panel are also not captured within annual reports, unless the agency has voluntarily disclosed this information.

Source: BAS dashboard spend (NSW Procurement – unaudited), Spend Cube – advisory services spend (NSW Procurement – unaudited), reported consulting spend (agency annual reports – unaudited).

### NSW Procurement monitors risks to the availability of suppliers

NSW Procurement monitors the P&MS Scheme for supply-side risks and to maintain its integrity. This includes ensuring that prequalified companies comply with the SCF, which was introduced in January 2018 and updated in 2019. The use of the P&MS Scheme is not mandatory.

There are currently seven companies prequalified on the P&MS Scheme that have not accepted the SCF. Suppliers that have not accepted the SCF are Boston Consulting Group, Cambridge Economic Policy Associates, L.E.K. Consulting, McKinsey & Company, Partners in Performance, Bain & Company, and EY Port Jackson Partners. NSW government agencies can only use these companies for a limited number of categories of work. In September 2021, the NSW Procurement Board introduced a rule requiring agencies to seek approval from the relevant department secretary to engage these firms.

NSW Procurement monitors aspects of the procurement system in NSW including:

- supplier management (managing over 3,000 suppliers on the P&MS Scheme)
- buyer management (education to the sector on procurement best practice)
- contract management
- governance and reporting (NSW Procurement encourages use of the P&MS Scheme and minimising the use of Outside the Standard Commercial Framework firms).

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## 3. Agency procurement and management of consultants

This chapter outlines our findings on the use of consultants by the ten NSW government agencies that were included in this audit.

### 3.1 Procurement of consultants

#### **Most agencies did not have a strategic approach to procuring consultants**

Our review of consulting engagements across ten agencies indicated that most agencies used consultants in an ad hoc manner. We found multiple examples in which agencies used the urgency of work as the justification for awarding contracts via a single-source procurement or making large contract variations. Some agencies also noted that consultants are mostly used for short-term projects where an agency lacks capacity or skills to complete the work. However, agencies did not provide any evidence to show that consultants were only or predominantly used for this type of work. Most agencies included in this audit did not provide examples of structured approaches for the use of consultants, such as guidance for determining when consultants should be used and when an agency should complete work using its own staff.

One agency provided evidence of a division conducting forward planning, including discussions with potential suppliers, to consider the potential need for consultants and contractors during anticipated peak periods. Another agency stated that a recent corporate functions review identified a need for better workforce planning, including the way consultants and other non-permanent staff are used. The agency advised that this work has commenced as a part of broader work on aligning its workforce to its current and upcoming priorities and programs.

#### **Some agencies engaged consultants to conduct core public service work**

Our assessment of a sample of consulting engagements found examples in which agencies engaged consultants to complete work that fits within the core role of public service. Two examples of this are described in Exhibit 13.

The use of consultants to provide advice on important policies or projects is appropriate in some circumstances. Consultants can provide expert knowledge and an external perspective that can help government agencies achieve better outcomes. However, a reliance on consultants to conduct work that could be considered core public service work increases risks, including over-reliance on consultants for expertise and reductions in the independence of advice.

## Exhibit 13: Consulting engagements to conduct core public service work

### Example 1

In 2019, NSW Treasury engaged a consultant to assist with the implementation of changes to accounting standards. The proposal that was accepted from the consultant set out a work plan including consultation with NSW government agencies and the development of new policies and guidelines.

NSW Treasury is a central agency that describes its role as 'the NSW Government's principal whole-of-government financial and economic adviser'. This includes providing advice on the State's principal financial assets and supporting the development of policy advice and implementation of programs. We were not provided with evidence explaining why NSW Treasury required consultants to complete this piece of work, which appears to fit within its description of its core role. The consultant team was largely comprised of senior staff (manager and above, including two partners) without an explanation to justify the use of senior, more expensive staff for the engagement.

In addition, NSW Treasury did not provide the Audit Office with any evidence that a competitive tender process or other pre-engagement planning or probity work was conducted for this engagement. The consultant's proposal indicated that NSW Treasury directly sourced this piece of work.

### Example 2

In 2022, NSW Treasury engaged a consulting firm to act as the 'State's Strategy Adviser'. A minister had requested urgent advice on a policy issue and the consultant was engaged by the agency on a contract of \$1.5 million, with a subsequent variation increasing the value to \$1.6 million. The documentation provided indicates that the contract was awarded after a competitive process that complied with the NSW Procurement Policy Framework.

NSW Treasury's description of the scope of work for the consultant included assessing the current environment and regulatory framework, reviewing best practice in the policy area, developing options for responding to the policy issue, and preparing reports and presentations. It engaged separate advisors for specific technical aspects related to the policy. In its brief seeking approval from the head of the agency to engage the consultant, NSW Treasury stated the consultant was required 'to balance competing objectives and determine preferred options based on the government's objectives'.

The scope of work outlined above appears to fit within the role that NSW Treasury describes for itself. The documents provided to us did not include a justification of why a consultant was required to complete this work. Staff we spoke to at NSW Treasury during this audit indicated that consultants are sometimes used for urgent work when NSW Treasury does not have staff resources available.

Source: Audit Office analysis of agency engagement files (unpublished).

## We identified gaps in record keeping, including missing contracts and other key documents

Our review of a sample of 82 consulting engagements indicates that several agencies did not consistently comply with record keeping requirements under the *State Records Act 1998*. We requested documents including contracts, tender documents, and briefing notes showing approval for the engagements. Three of the ten agencies provided contracts for all of the selected engagements, but four of the agencies were unable to provide contracts for multiple engagements that we requested. Overall, contracts were not provided for almost one quarter (24%) of the selected consulting engagements.

Under the *State Records Act 1998*, NSW government agencies are required to retain contracts and other key documents from consulting engagements for a minimum of seven years. All of the consulting engagements we selected were conducted within the past seven years. The figures above exclude the engagements in which agencies advised that they no longer had the relevant documents because the function had been transferred to another agency (referred to as a 'Machinery of Government change'). In these cases, agencies are responsible for ensuring the relevant documents are transferred to the agency that is taking responsibility for the function.

Our review of disclosures of spending on consultants in annual reports found 12 engagements where the agency did not include the name of the consultant used, and eight examples where the name of the project was missing from publicly reported information. For example, one entity reported two consulting engagements valued at a combined \$2.5 million in which neither the consultant nor project names were provided. Disclosures of consultant spending that were missing these details made up only six and four per cent of the total disclosures in annual reports, but this basic information should always be reported publicly. This lack of detail reduces transparency about the way agencies are using public funds and reduces NSW Procurement's ability to monitor and analyse the use of consultants by NSW government agencies.

## 3.2 Management of consultants

### Many consulting engagements we reviewed included contract variations

Agencies made variations to contracts that increased the amount paid to consultants in almost one in three of the consulting engagements we examined (25 out of 82, or around 30%). In five of these cases, the total amount of the contract increased by more than \$500,000 compared to the amount initially agreed. The largest increase through variations to an individual contract was \$2.5 million. For this consulting engagement, there were ten variations that increased the cost of the contract over a ten-month period. This resulted in the agency paying a total of more than \$3.7 million, which was more than three times the amount originally agreed, and exceeded the maximum increase allowed under the NSW Procurement Policy Framework.

The extensions and increased cost of the contracts in our sample were due to the NSW government agencies requesting additional work from the consultants after the initial contract had been agreed. In some cases, extending an existing contract can provide better efficiency and value compared to conducting a new tender process and potentially engaging a different consultant.

However, the use of contract variations increases risks to value for money. The Procurement Policy Framework states that routinely exercising extension options or rolling over contracts reduces competition and limits access to new suppliers, products and services. For these reasons, the Procurement Policy Framework states that agencies must only extend contracts where it can be demonstrated that doing so will deliver value for money. Section 7 of the Procurement (Enforceable Procurement Provisions) Direction 2019 states that the estimated value of a procurement must include any extensions, renewals or similar mechanisms that are anticipated at the time of approval. This direction does not apply to several NSW government agencies, including Sydney Metro and some of Transport for NSW's procurements.

Our review of a sample of consulting engagements found several examples where the original estimated cost of contracts did not include variations that could have been anticipated by the agency. Two of these are described in Exhibit 14. In the second of these cases, the variation increased the cost of the contract by an amount that exceeded the allowable limit set by policy.



## Exhibit 14: Contract variations to single-source procurements

### Example 1

In 2021, Sydney Metro conducted a single-source procurement to engage a consultant for a review of the agency's management of a major project. The review had a broad scope, including an assessment of risk management, governance, stakeholder management, and the overall economy and efficiency of the management of the project. Sydney Metro's justification for using a single-source procurement, rather than a competitive tender, was to 'avoid delay to beginning the engagement' as the 'strategic advice sought will inform upcoming strategic decisions'. The selected consulting firm had not agreed to the terms of the NSW Government's Standard Commercial Framework, which sets maximum rates that consultants can charge.

NSW Procurement Policy permits single-source procurements of this type up to a maximum cost of \$250,000, if approved by the head of the agency. Sydney Metro gained the required approval to award the consultant a contract with an upper limit of \$249,000.

Sydney Metro subsequently varied the contract, asking the consultant to complete a second piece of work that followed on from the first. Under NSW Procurement rules, this contract could be varied up to a maximum of \$500,000. The contract was varied to increase the total cost of the engagement to \$497,000.

Sydney Metro's briefing note seeking approval for the variation stated that both pieces of work were requested by the Sydney Metro Board and that Sydney Metro did not anticipate the need for a contract variation at the time the first phase of work was approved. The potential for a second piece of work was raised in the consultant's initial proposal, but Sydney Metro's briefing note described this as 'outside the scope of this appointment' because it had not requested this work.

Given the broad scope of the initial work requested by Sydney Metro, the possibility of a contract variation that increased the cost of the engagement could reasonably have been anticipated and considered when deciding whether a single-source procurement method was appropriate. The procurement direction relating to estimating the full cost of procurements (described on page 24) does not apply to Sydney Metro.

### Example 2

In 2020, NSW Treasury engaged a consultant that was a part of the P&MS Scheme to provide communications advice. The agency used a single-source procurement because the consultant had previously provided similar work for the agency. The initial cost of the work was \$100,000 and was approved by an executive director, when the agency's policy required approval from the head of the agency. This error was corrected by the agency at a later date, when variations to the contract were being approved.

Variations to the contract were used to extend the scope of work. These increased the cost of the contract to \$500,000. This exceeded the maximum increase allowed under NSW Procurement Policy for a single-source procurement. The agency described the additional work as 'Phase 2' and said this work had been included in the initial request for proposal. However, the cost of the second phase was not included in the initial estimate of the cost of the procurement. Section 7 of the Procurement (Enforceable Procurement Provisions) Direction 2019 states that the full anticipated cost of a project including any variations should be included at the initial approval stage. If NSW Treasury had included the anticipated cost of both phases of this piece of work, it would not have been permitted to conduct a single-source procurement because the cost of the contract would have been higher than \$250,000.

Source: Audit Office analysis of agency engagement files (unpublished).

### Most consulting engagements we reviewed were not monitored or evaluated by agencies to ensure they were delivering value

Our review of a sample of consulting engagements found that most agencies did not have systems or processes for monitoring the performance of consultants. Fewer than half of the engagements we reviewed (32 of 82) included a formal requirement for the consultant to report to the agency on progress. Evidence that this reporting was done was provided to us in only five cases. Some performance monitoring can occur informally, for example, when consultants are engaged to work as a part of a project team within an agency. However, the NSW Procurement Policy Framework states that agencies should establish systems to monitor compliance with contract terms and performance requirements.

For seven of the consulting engagements in our sample, we did not receive any documentation showing how the consultant was engaged or managed. Most of these were relatively lower value contracts, but one was valued at almost \$1 million and another was valued at over \$500,000. For most agencies, we did not see evidence of regular reporting to executives about the performance of consultants engaged, either for specific large engagements or for the use of consultants overall. We have identified similar issues in previous performance audits, including our audit of HealthShare NSW's contract management capability, published in 2019.

Among the examples where agencies did monitor performance, they required consultants to provide updates on work completed at specified times during the engagement. Doing this allows an agency to identify any issues with the consultant's performance during the engagement and take corrective action where needed.

Evaluations of the work done by consultants were rarely conducted. We were provided with evidence of post-engagement reviews of work done for only three of the 82 engagements we examined, despite a large majority of the engagements being valued at over \$150,000. One engagement in our sample included a report of unsatisfactory performance from a consultant (Boston Consulting Group). This consultant had been granted a contract extension several months prior to this report being made.

The P&MS Scheme rules require agencies to submit post-engagement reports to NSW Procurement for all engagements valued at more than \$150,000, and for engagements of any value where the agency considers the performance of the consultant to be unsatisfactory. NSW Procurement does not enforce compliance with this requirement.

The absence of evaluations of work done by consultants means that agencies do not capture and share information that could inform future decisions about consulting engagements, such as when the use of consultants is most effective, or which consultants would be best for specific types of work. It also means that information about unsatisfactory performance is less likely to be recorded and shared within or across agencies.

During this audit, NSW Procurement advised that it has commissioned a research project to seek the views of consultants and other professional services providers on the operation of the P&MS Scheme. This work has not been completed yet. It may provide useful information about the experiences of suppliers to NSW government agencies, but it will not provide information on whether agencies are satisfied with the services that they are paying for using public money.

### **Most agencies did not transfer or retain knowledge and skills from consulting engagements**

Our examination of a sample of consulting engagements identified only 11 engagements (13% of our sample) that included evidence that knowledge transfer or plans for retention of knowledge were built into agreements with consultants. There is no formal requirement for knowledge transfer or retention plans to be included in consulting engagements, and our audit did not request these from agencies. We also acknowledge it is possible for staff at agencies to gain some knowledge from consulting engagements informally or indirectly. However, using a structured approach to transferring and retaining knowledge from consulting engagements would increase the likelihood that opportunities to improve staff skills are maximised. This may reduce the chance that agencies will need to re-engage consultants to do similar work in the future.

In the cases that did include a structured approach to knowledge transfer, the contracts or work plans included co-location of consultants with agency staff, or the consultants conducting coaching, workshops or seminars with staff from the agency. These approaches have the potential to increase the value of consulting engagements to the agency by considering how the work could contribute to improving the skills and knowledge of agency staff.

**Conflicts of interest processes were in place for the consulting engagements in our sample, but we did not receive evidence of relevant agency staff completing declarations for some engagements**

Our examination of a sample of consultant engagements indicates that probity documentation was completed by consultants engaged by NSW government agencies. This was either done for specific projects or via the prequalification scheme, which requires service providers to complete probity processes when registering. However, for some engagements we reviewed, we were not provided evidence that staff from agencies who were involved in the procurement of consultants, such as members of tender evaluation panels, completed probity processes such as providing statements of interests. These processes should be followed as a standard part of protecting the integrity of procurements. The frequent use of consultants and the concentration of work within a small number of firms increases the risk that consulting firms may have conflicts of interest that affect the advice they provide to agencies.

## **Section two**

### Appendices

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# Appendix one – Responses from auditees

## Response from NSW Treasury



Treasury

Contact: Mr Song Hong  
Telephone: (02) 9372 8203  
Our Reference: TA23/116

Ms Margaret Crawford  
Auditor General of NSW  
Level 15, 1 Margaret Street  
SYDNEY NSW 2000

Dear Auditor General,

### Performance Audit – Use of Consultants

Thank you for the opportunity to respond to the final NSW Auditor General's Report, *Performance Audit – Use of Consultants* (the Report). As outlined in further detail below, Treasury accepts all of the recommendations of the Report that are relevant to Treasury.

In relation to the broader findings of the Report, NSW Treasury notes the NSW Government's 2019 commitment on procurement savings was implemented through a reduction in agencies' budgets by \$729 million in the 2019-20 Budget.

As indicated in the Report, the audit spans a particularly unpredictable and volatile time, when the public sector was required to respond to several natural disasters and the COVID-19 pandemic, which unavoidably required a rapid development of urgently required new programs, and a significant expansion in government expenditure. Outside consultancy expertise played a valuable role in assisting with this response. Treasury considers this is a critical factor that should be taken into account in interpreting the Report's findings.

Even during this period, ongoing improvements made by NSW Procurement in the management and oversight of professional service firms and the use of consultants, including the implementation of capped rates, resulted in avoided costs of more than \$150 million since 2018. Treasury is pleased to note that the Report acknowledges this work.

The Report highlights the challenges with the 'devolved governance model' for procurement in New South Wales, and that NSW Treasury's ability to improve procurement outcomes relies heavily on departments and agencies, to manage and monitor the use of consultants effectively. NSW Treasury looks forward to working with your Office in providing more clarity to departments and agencies on the definition of consultants, and to improve the financial reporting on the use of consultants.

The completion of this audit provides an opportunity to further strengthen the ways in which NSW Treasury engages external consultancy services itself, as well as providing further guidance to NSW Government agencies.

In relation to the specific recommendations relevant to NSW Treasury, Treasury wishes to record the following responses:

**Recommendation 1: By June 2023, NSW Treasury should, as part of its annual reporting reform project, ensure consulting expenditure by all relevant NSW government entities is captured in annual reports.**

*Accepted.*

**Recommendation 2: By December 2023, NSW Procurement should complete work to improve the quality of data collected from suppliers, which NSW Procurement committed to doing in response to our procurement and reporting of consultancy services report in 2018.**

*Accepted, noting that Treasury is dependent on departments and agencies implementing a suitable vendor management system, to effectively record and manage all professional services engagements, including consultancy suppliers, and to provide all relevant data to NSW Treasury.*

In addressing this recommendation, NSW Procurement will continue to work with the NSW Procurement Board to continuously improve the quality of supplier data as part of each agency's accreditation obligations.

**Recommendation 3: By December 2023, NSW Procurement should provide additional guidance to agencies on applying the definition of consulting for their annual reporting on consulting expenditure.**

*Accepted, noting the effective implementation of such additional guidance in annual reporting is dependent on departments and agencies.*

**Recommendation 4: By December 2023, NSW Procurement should monitor strategic risks and agency compliance with NSW Procurement policies more comprehensively, including:**

- the use of contract variations
- the use of single source procurements
- the concentration of suppliers.

*Accepted, noting that accountability for monitoring strategic risks and agency compliance with NSW Procurement Board policies rests with heads of departments and agencies under the devolved governance model.*

In addressing this recommendation, NSW Procurement will continue to work with the NSW Procurement Board to obtain further information from departments and agencies on strategic risks and agency compliance as part of their accreditation obligations.

**Recommendation 5: By December 2023, NSW government agencies should develop a more strategic approach to the use of consultants, including:**

- providing guidance for staff on when consultants should be used
- conducting regular assessments of the quality of work done by consultants



- using consistent approaches for transferring and retaining knowledge from consulting engagements

*Accepted, as it relates to the Treasury agency.*

**Recommendation 6: By December 2023, NSW government agencies should ensure all consulting engagements comply with NSW Procurement Policy, including:**

- specifying the expected cost of all phases of a consulting engagement in the initial approval process
- only using contract variations when there is a clear and specific justification.

*Accepted, as it relates to the Treasury agency.*

**Recommendation 7: By December 2023, NSW government agencies should improve record-keeping practices to ensure all relevant documents relating to consulting engagements are retained in accordance with the State Records Act 1998 and directions from State Records NSW.**

*Accepted, as it relates to the Treasury agency.*

I would like to thank you for the opportunity to respond to the Report.



**Paul Grimes PSM**  
Secretary

1 March 2023

## Response from Department of Communities and Justice



Communities and Justice

Our ref: EAP23/839  
Your ref: D2300658

Ms Margaret Crawford  
Auditor-General for New South Wales  
Audit Office of NSW  
GPO Box 12  
SYDNEY NSW 2001

By email: [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Dear Ms Crawford,

### Performance Audit - Use of Consultants

Thank you for the opportunity to provide a response to the Auditor Office of NSW's Final Report of its Performance Audit on the Use of Consultants.

The Final Report has been reviewed, and I note that there are no specific recommendations regarding the NSW Department of Communities and Justice (the Department).

The Recommendations provided in Section 1, Part 2, page 6 for all NSW government agencies are supported. The Department proposes to establish a Working Group to develop an Action Plan and implement the required recommendations.

Thank you for the professional and productive engagement of your team over the course of this Performance Audit. I look forward to the tabling of the Final Report in the NSW Parliament.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Michael Tidball'.

**Michael Tidball**  
**Secretary**

27 February 2023

Department of Communities and Justice  
Postal address: Locked Bag 5000, Parramatta NSW 2124  
W [www.dcj.nsw.gov.au](http://www.dcj.nsw.gov.au)  
T (02) 9377 6000  
ABN 36 433 875 185

## Response from Department of Customer Service



**Customer  
Service**

McKell Building – 2-24 Rawson Place, Sydney NSW 2000  
Tel 02 9372 8877 | TTY 1300 301 181  
ABN 81 913 830 179 | [www.nsw.gov.au](http://www.nsw.gov.au)

### Office of the Secretary

*Our reference: COR-00457-2023  
Your reference: D2300658*

Ms Margaret Crawford  
Auditor-General for New South Wales  
Audit Office of NSW

By email: [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Dear Ms Crawford

Thank you for your correspondence dated 25 January 2023 regarding the NSW Auditor General's (AG) Performance Audit on the Use of Consultants.

The Department of Customer Service (DCS) recognises the need for strong governance across our delivery portfolio and internal control processes. We welcome all opportunities to continue to improve the governance and internal controls of our delivery, in support of our commitment to the citizens of NSW and the NSW Public Sector.

DCS notes the recommendations made throughout the draft report (as provided by the AG) and considers the findings to be factual and as applicable to DCS, free of misrepresentation.

At DCS, business divisions are responsible for their procurement activities. The Corporate Procurement function provides advisory support and guidance to the agency divisions to enable understanding and practical implementation of the NSW Procurement Policy and framework. DCS Corporate Procurement partners with the business to ensure compliance throughout their engagements, across the governance and probity pillars of NSW Procurement Policy and, offers independent advice and support throughout the contract lifecycle.

Since Qtr. 3 of 2021 calendar year, DCS has made significant improvements in its delivery of Procurement, including a holistic transformation to the operating model of its central procurement function. As part of our continuous improvement journey, DCS Corporate Procurement has already initiated several measures to strengthen the DCS approach in the use of consultants, to ensure that their engagement and outputs, supplement the strategic work of our Department, represents value for money and, adheres to the requirements of NSW Procurement Policy and broader legislative/policy requirements. These include:

- Mandated 'buyer' completion of Contract Management Plans prior to engagement of consultants to ensure detailed oversight of need, intent, and desired end outcome. Mandated use of this template will enable DCS central procurement to provide stronger end to end advisory services to the business divisions in advance of engagements; ensure alignment to and augmentation of DCS strategic goals; clear articulation and compliance with NSW Procurement Policy; detailed return on investment and benefits realisation and, value for money.
- Implementation of an internal procurement audit process, to conduct contract and performance management reviews in partnership with business divisions, to facilitate lessons

learned and provide recommendations for knowledge transfer to upskill Department staff reducing reliance on consultancy firms in the future.

Supplementing the above, DCS Corporate Procurement is also progressively deploying:

Digital dashboards and platforms to enable 'real-time' view of end-to-end procurement activity and compliance across the Department, providing greater visibility to the DCS Executive of consolidated activity and, early notification for the central procurement function of stage-gates and completion of governance and record management requirements.

Improved guidance and more frequent training to educate officers involved in procurement activity on their responsibilities in ensuring consultants are engaged in compliance with the NSW Procurement Policy throughout the contract lifecycle.

DCS anticipates achievement of these actions by end of Qtr. 3 2023 calendar year.

Should you like to seek further input from DCS with regards to this Performance Audit, please reach out to Acting Chief Procurement Officer Department of Customer Service.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Emma Hogan', with a stylized flourish at the end.

Emma Hogan  
**Secretary**

Date: 14/02/23

## Response from Department of Education



Ms Margaret Crawford  
Auditor-General  
Audit for New South Wales  
GPO Box 12  
SYDNEY NSW 2001  
[mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Ref: DGL23/30

Dear Ms Crawford

I write in response to your correspondence of 25 January 2023, and the opportunity for the Department of Education to review and comment on the final report of the Performance Audit on the Use of Consultants before it is tabled in early 2023.

I wish to extend my thanks to your team for their efforts in conducting the audit. The findings will assist the Department in its work to deliver improved educational outcomes and to manage and deliver school infrastructure to support communities across NSW.

The Department is committed to ensuring value for money when procuring goods, services and works. The Department's Procurement Policy is aligned with and guided by the NSW Government Procurement Policy Framework, issued by the NSW Procurement Board and NSW Procurement Board Directions.

The objectives of the Department's procurement policy are to:

- maintain standards of transparency, probity and ethics;
- consider and apply value for money requirements, ensuring quality goods, services and works;
- ensure accountability, consistency and alignment in procurement practices across its various entities and business units;
- commit to fair and effective competition, innovation and continuous improvement;
- identify sustainable and socially responsible procurement solutions, including increasing procurement from Aboriginal-owned businesses, and ensuring opportunities for disability and small-to-medium enterprises;
- provide efficient processes, a robust risk management framework and flexibility to support Education Cluster entities and their suppliers;
- facilitate and promote compliance with the NSW Procurement Agency Accreditation Program's mandatory requirements; and
- support the achievement of the Cluster's planned procurement savings targets.

I am pleased to advise the Department's policy and practices align with the recommendations made in the final report, but we acknowledge improvements can and will be implemented.

Should you require additional information, Group Director Procurement and Chief Procurement Officer in the Department.

Yours sincerely

A handwritten signature in black ink, appearing to read "G Harrison".

Georgina Harrison  
**SECRETARY**

**DEPARTMENT OF EDUCATION**

20 February 2023

NSW Department of Education

Darug Country 105 Phillip Street Parramatta NSW 2150 GPO Box 33 Sydney NSW 2001 1300 679 332 [education.nsw.gov.au](http://education.nsw.gov.au)

## Response from Planning and Environment



### Department of Planning and Environment

Our ref: OUT23/2000

Your ref: D2300658

Margaret Crawford

Auditor-General

Audit Office of New South Wales

By email

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**Subject:** Performance Audit – Use of Consultants

Dear Ms Crawford

Thank you for your letter of 25 January 2023 enclosing a copy of your final report on the use of consultants by NSW Government agencies.

I would also like to thank you for providing the Department of Planning and Environment with the opportunity to comment on the draft report, and for your consideration of our comments during the preparation of the final report.

The Department supports and welcomes the recommendations that have been made in the final report. The procurement team have commenced work to implement the agency recommendations. Our focus remains on ensuring value for money for the taxpayers of New South Wales while addressing any potential risk identified in the report.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Cassel'.

Mick Cassel

Secretary

20 Feb 2023



# Response from Department of Regional NSW

Sensitive – NSW Government



BN23/700  
22 February 2023

Margaret Crawford  
NSW Auditor-General  
NSW Audit Office  
GPO Box 12  
SYDNEY NSW 2001

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Re: Performance Audit – Use of Consultants

Dear Ms Crawford,

Thank you for the opportunity to respond to the Performance Audit Report on the Use of Consultants. The Department of NSW (RNSW) notes the final report and its recommendations. RNSW supports the implementation of the recommendations to improve how effectively NSW government agencies procure and manage consultants.

Staff at RNSW appreciated the opportunity to share their insights and contribute to this audit. While RNSW was not specifically named in the report, we are committed to implementing the recommendations targeted to all Government Agencies by December 2023.

Should you wish to discuss any aspects of implementation of the recommendations, please feel free to contact our Chief Procurement Officer.

Yours sincerely,

A handwritten signature in black ink, appearing to read "RFox".

**Rebecca Fox**  
Secretary  
Regional NSW

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1 Monaro Street  
Queanbeyan NSW 2620

[regional.nsw.gov.au](http://regional.nsw.gov.au)

1

## Response from Infrastructure NSW

### Infrastructure NSW

AON Tower, Level 27, 201 Kent Street  
Sydney NSW 2000 Australia  
ABN 85 031 302 516

22 February 2023

Ms Margaret Crawford  
Auditor-General for New South Wales  
Audit Office of NSW  
GPO Box 12  
SYDNEY NSW 2001

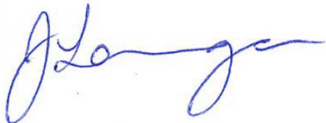
Dear Ms Crawford

Thank you for your letter of 25 January 2023 enclosing a copy of your report on the Use of Consultants. I appreciate the opportunity to provide comment on behalf of Infrastructure NSW (INSW).

INSW is a small agency drawing on the best of public and private sector expertise to provide independent advice to Government and deliver nominated priority infrastructure projects. We limit our use of consultants to instances where INSW requires the support of subject matter experts with specialised skills, experience or knowledge that cannot be provided by permanent or contingent employees.

We support and welcome the recommendations that have been made in the final report and look forward to working collaboratively with NSW Procurement and NSW Treasury toward their implementation.

Yours sincerely



Janine Lonergan  
Acting Chief Executive

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## Response from Sydney Metro



Your Ref: D2300658  
Our Ref: SM-23-00020565

20 February 2023

Ms Margaret Crawford  
Auditor-General for New South Wales  
GPO Box 12  
SYDNEY NSW 2001

Dear Ms Crawford

I refer to your letter dated 25 January 2023 and thank you for the opportunity to provide a response on behalf of Sydney Metro to the Use of Consultants Performance Audit Report (the Report).

Sydney Metro acknowledges the comprehensive work undertaken by the Audit Office and welcomes the Report's findings and conclusion, in particular, the findings related to NSW government agencies. These include the development of a more strategic approach to the use of consultants, ensuring all consulting engagements comply with NSW Procurement Policy and improving record-keeping. We do however note that we are unable to comment on certain specific findings where the findings do not specifically relate to Sydney Metro.

Sydney Metro notes that one single-source procurement by Sydney Metro has been used by the Audit Office as an example of contract variations (Exhibit 14, Example 1) and that the Audit Office Report does not identify any non-compliance by Sydney Metro with NSW Procurement Policy.

Sydney Metro are currently managing consultant spend by undertaking procurement and contract management activities in compliance with NSW Procurement Policy.

Sydney Metro actively seeks to limit the engagement of consultants to only those circumstances where truly independent professional advice is required. Sydney Metro follows the guidance on the definition of a consultant provided by Transport for NSW to ensure the engagement of consultants is in accordance with Procurement Board Direction 2021-03 – Engagement of Professional Services Suppliers.

Sydney Metro utilises the Prequalification Scheme for Performance and Management Services where appropriate and complies with the associated Guidelines for Agencies. Procurement processes are conducted in accordance with the NSW Government Procurement Policy Framework, including consideration of the total estimated spend over the term of the contract.

Consultants are managed in accordance with the Sydney Metro Service Provider Performance Management Procedure which includes Contractor Performance Reporting

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### Sydney Metro

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requirements and pursuant to the *Annual Report Regulation 2015*, all consultant expenditure is reported in Sydney Metro's Annual Report.

Sydney Metro accepts the Report's recommendations 5, 6 and 7 and is committed to implementing the necessary processes to support the recommendations by December 2023.

Finally, Sydney Metro would like to take this opportunity to thank you and your staff for the transparent and cooperative manner in which the Audit Office conducted this Performance Audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Regan', with a stylized flourish at the end.

**Peter Regan**  
Chief Executive  
Sydney Metro

# Response from Transport for NSW

Transport for NSW



Ms Crawford  
Auditor-General  
Audit Office of NSW  
GPO BOX 12  
Sydney NSW 2000

By email: [mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

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**Re: Performance Audit Report (“the Report”) on Use of Consultants – our ref: OTS22/03779**

**Dear Ms Crawford,**

Thank you for the opportunity to respond to the Performance Audit Report (“the Report”) on Use of Consultants.

Transport for NSW (TfNSW) welcomes the Report, its findings, and recommendations. TfNSW is committed to improving accountability and performance across the Transport and Infrastructure cluster in these areas. The Report provides TfNSW with valuable feedback for further improving the procurement and management of consultants.

TfNSW accepts the recommendation to develop a more strategic approach to the use of consultants. TfNSW undertakes to extend guidance in its current procurement policy framework to detail when consultants should be used, the requirement to conduct regular assessments of the quality of work done by consultants, and consistent approaches for transferring and retaining knowledge from consulting engagements.

TfNSW accepts the recommendation that all consulting engagements comply with NSW Procurement Policy, including specifying the expected cost of all phases of a consulting engagement in the initial approval process and only using contract variations when there is a clear and specific justification.

TfNSW also accepts the recommendation to improve record-keeping practices to ensure all relevant documents relating to consulting engagements are retained in accordance with the State Records Act 1998 and directions from State Records NSW.

Thank you to you and your team for the insights that the audit has provided.

Sincerely,

**Rob Sharp**  
**Secretary**

15 February 2023

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**By December 2023, NSW government agencies should:**

**5. Develop a more strategic approach to the use of consultants, including:**

- providing guidance for staff on when consultants should be used
- conducting regular assessments of the quality of work done by consultants
- using consistent approaches for transferring and retaining knowledge from consulting engagements.

**Response:**

TfNSW accepts the recommendation to develop a more strategic approach to the use of consultants and undertakes to incorporate additional guidance into its current procurement policy framework to facilitate this recommendation. In May 2022, TfNSW developed a Consulting Factsheet to supplement the guidance in the TfNSW procurement policy framework. This Consulting Factsheet provides a definition of consultants along with several examples of scopes of work that amount to consultancy engagements. TfNSW undertakes to extend guidance in its current procurement policy framework to further detail:

- when consultants should be used;
- the requirement to conduct regular assessments of the quality of work done by consultants; and
- consistent approaches for transferring and retaining knowledge from consulting engagements.

TfNSW has identified a need for better workforce planning, including the way consultants and other non-permanent staff are used, and work on this has commenced. TfNSW is currently developing a Vendor Management Solution architecture design, with the Vendor Management Solution due to be implemented in FY23/24.

**By December 2023, NSW government agencies should:**

**6. Ensure all consulting engagements comply with NSW Procurement Policy, including:**

- specifying the expected cost of all phases of a consulting engagement in the initial approval process
- only using contract variations when there is a clear and specific justification.

**Response:**

TfNSW accepts the recommendation to ensure all consulting engagements comply with NSW Procurement Policy.

TfNSW's procurement policy framework states that the estimated contract value of a procurement must include the anticipated total value of the goods and/or services over the term of the contract, including any proposed extension options. TfNSW undertakes to update its procurement policy framework to specify that the expected cost of all phases of a consulting engagement must be considered and documented in the initial approval process.

TfNSW's procurement policy framework outlines possible circumstances where a contract variation is required. TfNSW undertakes to update its procurement policy

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framework to specify that contract variations are only permitted when there is a clear and specific justification.

**By December 2023, NSW government agencies should:**

7. Improve record-keeping practices to ensure all relevant documents relating to consulting engagements are retained in accordance with the State Records Act 1998 and directions from State Records NSW.

**Response:**

TfNSW accepts the recommendation to improve record-keeping practices and undertakes to ensure all relevant documents relating to consulting engagements are retained in accordance with the State Records Act 1998 and directions from State Records NSW.

TfNSW's procurement policy framework states that full records of the procurement process must be retained for record and audit purposes to comply with the State Records Act 1998 and Transports Records Management Policy. TfNSW's procurement policy framework also contains a comprehensive list of procurement-related records that must be retained. TfNSW undertakes to continually raise awareness of procurement record-keeping requirements through procurement training.

TfNSW notes that it provided contracts for all of the Audit Office's selected engagements.

**Transport for NSW**

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# Appendix two – About the audit

## Audit objective

This audit assessed how effectively NSW government agencies procure and manage consultants in line with the NSW Government's consultant savings targets.

## Audit criteria, scope and focus

We addressed the audit objective through the following criteria:

1. The NSW Procurement Board and NSW Procurement effectively supports and monitors agencies procuring and managing consultants.
2. Selected agencies effectively procure consultants.
3. Selected agencies effectively manage consultants.

The audit did not include detailed consideration of contingent labour and associated NSW Procurement scheme arrangements.

## Audit approach

Our procedures included:

1. Interviewing staff at selected agencies to understand use of consultants, controls and interaction of consultant procurement with workforce planning.
2. Examining documents including:
  - a) Procurement policies, plans and strategies
  - b) A sample of key documents from consulting engagements, including contracts and tender documents.
3. Analysing data including:
  - a) Annual report disclosures
  - b) Accounting ledgers
  - c) Central databases with information about consulting engagements.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

## Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by staff at the agencies included in this audit.

## Audit cost

The estimated cost of this audit, including staff costs and overheads, was approximately \$490,000.

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# Appendix three – Performance auditing

## What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38EA of the *Government Sector Audit Act 1983* for State government entities, and in section 421BD of the *Local Government Act 1993* for local government entities.

## Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

## How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

## **Who checks to see if recommendations have been implemented?**

After the report is presented to the NSW Parliament, it is usual for the entity's Audit and Risk Committee / Audit Risk and Improvement Committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of NSW Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

## **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

## **Who pays for performance audits?**

No fee is charged to entities for performance audits. Our performance audit services are funded by the NSW Parliament.

## **Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.