

Western Australian Auditor General's Report



Engaging Consultants to Provide Strategic Advice



Report 21: June 2018-19

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

**Engaging Consultants to Provide
Strategic Advice**

Report 21
June 2018-19



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

Engaging Consultants to Provide Strategic Advice

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This focus area audit assessed whether 8 state government entities had suitable policies, procedures and guidelines in place for the engagement of consultants for strategic advice and if they were complying with reporting requirements.

I wish to acknowledge the cooperation of the staff at the entities included in this audit.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
5 June 2019

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Auditor General's overview

This focus audit examined selected controls that provide oversight to Government of state government entities engaging consultants for strategic advice.

Our audit found that entities were generally complying with the requirement to liaise with and seek approval from the Department of the Premier and Cabinet before engaging consultants for strategic advice. We did however identify some areas for improvement.

These narrow scope audits can be considered as 'hygiene' audits as they give an indication of the health of various financial management controls, in this instance for the state government sector.

We conduct these audits as an extension of our annual financial audits, using more detailed testing than is required for forming our financial audit opinions.

Importantly, the findings of these audits are likely representative of issues in other government entities that were not part of our sample. I encourage all entities, and not just those audited, to periodically assess themselves against these risks and controls on an ongoing basis. Our better practice checklist at Appendix 1 has been designed to assist entities to run their own hygiene checks.



Executive summary

Background

In 2016, the State Government identified the need for centralised scrutiny when public sector entities engage consultants to provide strategic advice. As a result, Premier's Circular 2016/02 'Contracts for Services – Consultants' (Circular) was issued by the Department of the Premier and Cabinet (DPC).

The Circular requires state government entities to seek DPC approval of proposals with an estimated value of \$50,000 (including GST) and above to establish contractual arrangements with external consultants.

The policy only applies to consultancy services that provide strategic advice for Government to act on. Government trading enterprises are excluded from this policy.

The above process aims to provide Government with information on the levels of expenditure and the nature of externally sourced expertise and specialist skills. Entities should ensure that contracts for consultancy services for strategic advice valued at less than \$50,000 are for services which cannot be undertaken within their entity by adequately skilled/experienced staff.

Entities are required to submit an approval request form to DPC at least one week prior to starting the procurement processes to allow sufficient time for consideration and approval. The approval request form requires entities to provide:

- a brief of the project
- description of contracted services
- estimated contract value
- justification for services being undertaken by external parties rather than in-house
- an explanation of how the contracted services will contribute to an improvement in efficiencies and/or outcomes/service delivery.

DPC have published the following statistics regarding the engagement of consultants for strategic advice across the public sector.

Year end	Consultancies	Entities which engaged consultants	Total cost of contracts
30 June 2018	71	18	\$4,647,713
30 June 2017	41	15	\$3,165,981
30 June 2016	81	23	\$10,249,873*

Source – Department of the Premier and Cabinet, Reports on Consultants Engaged by Government www.dpc.wa.gov.au/publications/consultants/pages/default.aspx

*This includes \$4.67million relating to major asset sales

Conclusion

All 8 entities audited had policies, procedures and guidelines in place to ensure compliance with the Circular, and these were being implemented effectively. However, these policies, procedures and guidelines could be enhanced by clearly defining 'strategic consultancy advice'.

Although not an explicit requirement of the Circular, we noted that the policies and procedures for most entities did not require an assessment, prior to engaging a consultant, of whether in-house staff had the necessary skills and expertise to provide the advice. Consequently, we found instances where this assessment was not performed.

What we did

The focus of this audit was to assess whether entities had suitable policies, procedures and guidelines in place for the engagement of consultants for strategic advice and if they were complying with reporting requirements. Our focus audit assessed 8 state government entities of varying sizes over a 9-month period from 1 January to 30 September 2018. We searched all expenditure at the entities and identified 144 payments to consultants which potentially related to providing strategic advice. We then assessed whether these had been referred to DPC.

We used the following lines of inquiry:

1. Do entities have appropriate policies and procedures to ensure consultant contracts for strategic advice with a value of \$50,000 and above are submitted to DPC for approval?
2. Do entities effectively implement these policies and procedures?
3. Did each entity make an assessment whether in-house skills and expertise could be utilised?

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards.

The following 8 state government entities were included in this audit:

Entity
Commissioner of Main Roads
Department of Training and Workforce Development
Department of Transport
Forest Products Commission
Housing Authority
Lotteries Commission (Lotterywest)
Public Transport Authority of Western Australia
Western Australian Land Information Authority (Landgate)

What did we find?

Generally, entities have suitable policies and practices in place for the engagement of consultants for strategic advice.

Forest Products Commission (FPC) have a comprehensive contracts manual that has a dedicated section on the engagement of external consultants. Their manual was consistent with the requirements of the Premier's Circular and covered matters that were not included in the policies and procedures of the other entities, including:

- an overall proviso that consultants should only be engaged when appropriate skills are not available in-house
- a clear indication of the types of consultancy arrangements which are outside the scope of the Circular.

Procurement policies can be improved by defining 'strategic consultancy advice'

Procurement policies of 3 entities did not fully incorporate the requirements of the Circular as they did not define what constitutes 'strategic consultancy advice'. However, these entities had other procedures in place that, while less formal, demonstrated a knowledge of, and where applicable compliance with, the necessary requirements of the Circular.

Policies for the engagement of consultants can also be enhanced to ensure they make specific reference to the Circular and its requirements are incorporated in entities' procedures and guidelines manual.

Entities were generally complying with the Circular

Our testing of consultancy expenditure indicated that the audited entities were liaising with DPC regarding the proposed consultancy prior to commencing procurement. For many of our samples, DPC determined that the consultancy did not constitute 'strategic advice' and did not require approval. However, the fact that entities were discussing these proposals with DPC indicates that their controls are working appropriately.

DPC maintain a listing of consultancies which they considered were for strategic advice and therefore within the scope of the Circular. Although our lines of inquiry did not assess DPC's determination of which engagements represented strategic advice, we did not note any inappropriate decisions in this regard.

We sampled a small number of these consultancies to determine if DPC had approved the consultancy prior to the consultant being engaged. All of our sample had been approved except for one contract for \$98,669 at the Public Transport Authority, where a consultant was engaged without the approval of DPC, but subsequently reported to DPC.

Entities should conduct an in-house skills assessment for consultancy services below \$50,000

The Circular encourages entities to take due care to ensure that contracts for consultancy services valued below \$50,000 are for services that cannot be performed by existing staff with the necessary skills and experience.

We found that entities could strengthen their policies and procedures by requiring officers to document why in-house skills were not considered adequate, for consultancy projects in

general, including those below the \$50,000 threshold. This would ensure monies are not spent unnecessarily.

Only FPC had evidence to indicate that the entity had performed an assessment of whether there was sufficient in-house expertise prior to engaging the consultant.

Entities need clarity on which consultancies meet the definition of 'strategic advice'

Entities often required clarification from DPC regarding the types of engagements that could be deemed to be 'strategic advice'.

DPC advised that when they made their determinations, there were a number of other factors they considered, which were not made available to entities. Some of these factors included but were not limited to:

- the nature of the work
- how it was to be used and by whom
- the public interest
- the likelihood that the strategic advice would be acted on by Government.

We noted the Circular does not give clear guidance on the types of engagements that are likely to be strategic advice.

Recommendations

1. The Department of the Premier and Cabinet should consider updating Premier's Circular 2016/02 to provide further guidance and consider points to entities as to what constitutes '*strategic advice for Government to act on*'.

Timeframe: by 30 September 2019

2. State government entities should ensure that:
 - a) policies and procedures are up to date and where appropriate make specific reference to the requirements of the Premier's Circular governing the contracting of consultants for strategic advice
 - b) policies require an in-house skills assessment for consultancy projects in general, as well as those below \$50,000, to confirm staff within the entity do not possess the necessary skills before engaging an external consultant
 - c) contracts for consultants for strategic advice services with a value of \$50,000 and above are appropriately submitted to DPC for approval prior to the engagement of the consultant.

Response from entities

Entities in our sample and DPC generally accepted our recommendations and confirmed that they either have, or will improve their policies and practices to ensure compliance with Premier's Circular 2016/02.

Appendix 1 – Better practice principles

The following table shows control principles on which our audit focused. They cover a number of practices entities should have in place to ensure the necessary process for engaging consultants for strategic advice is followed and to ensure money is not spent unnecessarily. This is not intended to be an exhaustive list.

Engagement of strategic consultants	Focus area	What we expected to see:
Policy	Policies and procedures	<ul style="list-style-type: none"> • entities' policies and procedures include comprehensive guidance for the engagement of consultants for strategic advice • Policy to include the \$50,000 monetary threshold that requires engagement of DPC • policies and procedures are periodically reviewed. • policy includes a clear definition, guidance and examples of strategic advice for the purposes of Premier's Circular 2016/02
Engaging consultants for strategic advice	Identify the need to engage a consultant	<ul style="list-style-type: none"> • entity identifies the need to engage a consultant for strategic advice • entity to determine the estimated cost of engaging a consultant
	In-house assessment	<ul style="list-style-type: none"> • entity to consider and document whether any current employees possess the necessary skills and experience to undertake the work • entity considers whether the consultancy relates to strategic advice
	Engage with DPC	<ul style="list-style-type: none"> • consult with DPC to determine if the work to be undertaken by the consultant meets the definition of 'strategic advice' for the purposes of the PC 2016/02
	Complete necessary Approval Request	<ul style="list-style-type: none"> • if the work is deemed in scope of PC 2016/02 submit to DPC a request for approval at least 1 week before the procurement process
Reporting	Reporting of consultants engaged	<ul style="list-style-type: none"> • entity to submit details of consultants engaged for strategic advice every 6 months to their relevant Minister's Office within five weeks of the end of each six month period.

Source: OAG

Auditor General's Reports

Report number	Reports	Date tabled
20	Information Systems Audit Report 2019	15 May 2019
19	Audit Results Report – Annual 2018 Financial Audits	15 May 2019
18	Firearm Controls	15 May 2019
17	Records Management in Local Government	9 April 2019
16	Management of Supplier Master Files	7 March 2019
15	Audit Results Report Annual 2017-18 Financial Audits of Local Government Entities	7 March 2019
14	Opinions on Ministerial Notifications	13 February 2019
13	Opinion on Ministerial Notification	23 January 2019
12	Managing Disruptive Behaviour in Public Housing	20 December 2018
11	Opinions on Ministerial Notifications	20 December 2018
10	Opinions on Ministerial Notifications	18 December 2018
9	Treatment Services for People with Methamphetamine Dependence	18 December 2018
8	Opinions on Ministerial Notifications	10 December 2018
7	Audit Results Report – Annual 2017-18 Financial Audits of State Government Entities	8 November 2018
6	Opinion on Ministerial Notification	31 October 2018
5	Local Government Procurement	11 October 2018
4	Opinions on Ministerial Notifications	30 August 2018
3	Implementation of the GovNext-ICT Program	30 August 2018
2	Young People Leaving Care	22 August 2018
1	Information Systems Audit Report 2018	21 August 2018

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