

Inquiry into management and assurance of integrity by consulting services (Consulting services)

Summary

Around the world, including Australia, the use of consulting firms to provide public services is widespread, with the global consulting services market valued between \$US700 billion (\$1.06 trillion) and \$US900 billion (\$1.37 trillion)¹ in 2021. In Australia, billions of dollars of taxpayers' money are spent yearly on consulting services subject to little transparency or accountability. The significance of the consulting industry as the shaper of a new public sector is widely acknowledged.² It is consistent with a new public management approach in which governments adopt management structures, techniques and processes from the private sector to deliver public services.

Emeritus Professor James Guthrie, Member of the Order (AM), FCPA, Professor Jane Andrew, CPA and Dr Erin Twyford, CA, are critical accounting academics. We are concerned about conflicts of interest, the culture of consulting services firms, and the apparent lack of transparency and accountability for consulting arrangements. We offer some recommendations on how these critical issues can be managed.

Recommendations

We recommend the following based on the points we make in our submission below.

1. A statutory authority be established to take a whole of government approach to consulting services in Commonwealth agencies.
2. This authority to report annually, like the reports of the Australian National Audit Office, to provide transparency and make recommendations, with the opportunity for agencies to respond.
3. The statutory authority employs qualified public servants to oversee contracts and consulting activities in all Commonwealth bodies.
4. The Joint Committee of Public Accounts and Audit (JCPAA) oversee a review of consulting services in Commonwealth agencies.

5. To evaluate consulting services' value for money and performance, the Department of Finance must disclose consulting agreements during the year following the New Zealand Government's Performance Capability Index Framework.
6. Rebuild the public service, recognising government as a value creator in the economy.
7. Embed knowledge-sharing into contract evaluations instead of viewing contracts in transactional terms.
8. Mandate transparency and conflict of interest disclosure.

Terms of reference

a. The management of conflicts of interest by consultants

The work of consulting firms is often rife with conflict of interest. Examples include advising the leading fossil fuel polluters and the government mandated to reduce national emissions, auditing a sizeable prime contractor while bidding for similar contracts, and writing federal tax legislation while advising clients how to minimise tax obligations.

An entrenched relationship exists between the consulting industry, hollowed-out and risk-averse governments, and shareholder value-maximising firms. Mazzucato and Collington refer to this entrenched relationship as the 'Big Con', made possible by the unique power that consultancies wield through extensive contracts and networks and the illusion that they are objective sources of expertise and capacity.³

In Australia, West (2022) discloses that in 2022, one of the Big 4 consulting firms, KPMG, announced a 16% jump in revenue to \$2 billion.⁴ Despite their significant revenue, these Big 4 firms are secretive partnerships, not companies and do not have to disclose where their money is coming from, even though they are the most powerful private institutions in the world.⁵ Most of the income growth comes from governments and large multinationals in work that does not even attempt to avoid conflict of interest. For example, West (2022) argues that besides consulting, the Big 4 also help multinationals minimise tax while performing the 'gatekeeper' role of auditing the same big companies.⁶

Guthrie and Lucas (2022)⁷ examine how transnational fossil fuel corporations routinely engage in accounting practices that enable them to avoid paying the Australian Government hundreds

of billions of dollars in income tax. This tax avoidance – an abuse of the Australian tax system – is enabled by a host of offshore tax havens. Andrew Leigh, Assistant Treasurer, recently argued that allowing multinational firms to engage in accounting tricks and questionable behaviour has a massive impact on Australia.⁸

For example, in 2014, the *Australian Financial Review* revealed that in 2007 the ATO had become alarmed at burgeoning international tax avoidance and commissioned PwC Legal (a separate legal entity to PwC) to conduct an external review of the elite ATO unit which handled Advance Pricing Arrangements. Media reporting alleged that a PwC partner was involved in a severe breach of confidence,⁹ in which a PwC partner leaked government tax plans to clients. This behaviour by an individual is consistent with a broad corporate culture of conflict of interest, given that PwC provided advice to the ATO about multinational tax shifting while at the same time setting up an extensive practice in a tax haven. When the OECD's 2015 Final Report on the Base Erosion and Profit Shifting (BEPS) Action Plan to tax multinationals was adopted in Australia in 2016, PwC had already devised a tax practice to avoid the new law.

These are just a few examples of a culture of conflict of interest in consulting firms, which suggests that the Government's reliance on these firms, instead of a strong and independent public service, be reviewed. We recommend that the Joint Committee of Public Accounts and Audit (JCPAA) oversee a review of consulting services in Commonwealth agencies, especially given the commitment of the current Government to reduce spending on consulting as outlined in the 2023 budget.¹⁰

c. Enforcement measures are taken in response to integrity breaches, such as inadequate management of conflicts of interest, breach of contract or any other unethical behaviour by consultants.

Currently, there are few enforcement measures for integrity breaches and unethical behaviour by consultants. Professional bodies, such as the accounting and legal professional associations, take limited action about the misdemeanours of their members who are partners at Big 4 consulting firms. Primarily, whistle-blowers and investigative journalists reveal conflicts of interest and unethical behaviour.

As argued above, the ANAO has a vital role in preventing conflicts of interest through performance auditing. We also argue for establishing a statutory authority that takes a whole of government approach to procuring consulting services in Commonwealth agencies. This authority would report annually to provide transparency and make recommendations, with the opportunity for agencies to respond. It would employ qualified public servants to oversee contracts and consulting activities in all Commonwealth bodies. Doing so would ensure consistency and compliance. We recommend that the body follow the New Zealand Government's reporting guideline that requires each government agency to self-report to New Zealand Government Procurement (NZGP) annually,¹¹ consistent with a Performance Capability Index Framework that requires an agency to assess its procurement maturity and performance across the complete cycle of procurement against eight broad criteria:

- strategy and outcomes
- commercial and social outcomes
- governance and assurance
- risks and benefits
- planning and sourcing
- managing for results
- people strategy
- building capability

d. The management of risks to public sector integrity arising from the engagement of consultants

Despite an increase in interest in the operations of consulting firms and a growing concern about their power, there is little public knowledge about what consulting firms do in the public sector, as there is no accountability for the quality of their work and transparency of procedures undertaken in these partnerships. They remain primarily secretive organisations while operating as professional regulators and highly influential and conflicted global advisors with corporate and government clients. This points to a significant risk to public sector integrity.

Australia's top consulting firms secured a record \$3 billion worth of Commonwealth taxpayer-funded work in 2021–22, with Accenture taking top billing for the second consecutive year. Australia's leading players offering consulting services include Accenture (formerly Arthur Andersen), McKinsey, Boston Consulting Group, PwC, Deloitte, KPMG and EY.¹² These firms are often housed outside of Australia, where tax on earnings from Australian government receipts does not feed back into the Australian economy. Table 1 highlights the original contract extension and the total value of work undertaken in the financial year 2022. This expenditure has grown significantly from \$400 million a year in 2013 to at least \$2 billion in 2022, including new contracts and contract extensions.

Table 1. Top five consulting firms, FY22 (\$)

	Contracts	Extensions	Total work
Accenture	502,522,466	76,000,000	578,522,466
KPMG	412,452,310	93,000,000	505,452,310
Deloitte	345,701,063	37,800,000	383,501,063
PwC	273,245,139	55,800,000	329,045,139
EY	159,390,479	51,000,000	210,390,479
TOTAL	1,693,311,457	313,600,000	2,006,911,457

Source: AusTender AFR

Table 2 highlights recent spending on all consulting services for 2022 by government agencies in order from the highest.

	FY22 contracts* (\$)
Department of Defence	698,682,621
Australian Taxation Office	252,941,335
Department of Home Affairs	110,262,086
Services Australia	89,977,637
Department of Health and Aged Care	85,834,595

	FY22 contracts* (\$)
Department of Agriculture, Fisheries and Forestry	54,717,567
Australian Electoral Commission	38,335,128
Department of Foreign Affairs and Trade - Australian Aid Program	32,219,802
Department of the Treasury	31,203,435
Australian Digital Health Agency	29,391,725
TOTAL	1,423,565,929

* Only includes FY22 contracts

Source: AusTender AFR

As an example of the risk to public integrity arising from the engagement of consultants, we point to the use of PwC consulting services for the failed RoboDebt program. Recently PwC’s chief executive Tom Seymour defended its RoboDebt work, saying its consultants highlighted problems with the program and routinely use slide presentations instead of written reports to communicate findings to clients.¹³ Regardless, the Royal Commission into RoboDebt heard evidence that PwC was paid a \$1 million fee for this slide presentation. It also heard that the firm's findings would be marked for cabinet consideration to prevent them from being made public. PwC’s engagement is consistent with Mazzucato and Collington’s (2023) description of consulting firms working ‘both sides of the street’. They recommend that consultancies' contracts be no longer allowed to operate under a veil of secrecy. The RoboDebt case is a strong example of this lack of transparency in which a PowerPoint delivered the outcome of a million- dollar consulting service funding. It has significantly undermined public confidence in government and public sector integrity.

Jane Andrew argued that “there should be an obligation that anything funded by us, the taxpayer, should be published in the public domain for us to interrogate”.¹⁴ We recommend increasing the disclosures required by consultants wanting to win public sector contracts as this would enable taxpayers to assess better the quality of any work produced by the advisers and support confidence in the public sector and its integrity. We further recommend that consulting firms should not advise private entities that profit from government programs. As we have seen in the case of RoboDebt, service providers, debt collectors, remediation processes for the Department, and so on should not have been clients of the consulting firms advising the

Government. This recommendation would mean a consulting firm wanting to provide expertise around climate change would have to disclose that they have worked for big oil and gas firms.

Recommendation: Consulting firms should not advise private entities who profit from government departments or programs they advise on. This should be enshrined in any contract for services.

e. The transparency of work undertaken by consultants, and the accountability of consultants for this work

The veil of secrecy outlined above and made clear in the case of RoboDebt points to a lack of transparency for consultants' procurement and reports. As a further example, there have been two reports and a JCPAA inquiry into 95 contracts linked to Synergy 360. The reports identified flaws with 19 contracts worth \$374 million.¹⁵

We recommend that the JCPAA inquiry be broadened to include reviewing all consulting services in Commonwealth agencies.

f. Any other related matter: Rebuild the capacity of the public service

Three blunt policy initiatives over the last decade have hollowed out the Commonwealth public sector. The first is a crude budgetary measure called an efficiency dividend, an annual reduction in cash resources available to an organisation. It is applied as a percentage of operational (running) expenses.¹⁶ Second is the tool for public servants' wages capped at 2% annually. Third is cuts to the number of public servants.

Martin Parkinson, who led the Department of Prime Minister and Cabinet under Malcolm Turnbull and Scott Morrison, said limits on staffing levels led to public servants leaving only to return as highly paid consultants.¹⁷ Mazzucato and Collington (2023)¹⁸ call for consulting firms to be relegated to providing expert advice from the sidelines, assisting rather than acting as substitutes for the public sector. Doing so will build a strong and independent public sector, free of conflict of interest. It also builds capabilities – Professor Mazzucato argues that governments without a higher purpose inadvertently lose critical skills and become overly reliant on consultants.¹⁹

The growth in consulting also depends on the myth of 'transaction cost economics' and the theory that consultants should be used when the short-term economic costs of outsourcing are lower than doing the activity internally. This is based on a narrow view of costs that ignores the loss of internal learning critical to organisational innovation.

Mazzucato and Collington (2023)²⁰ urge a rebuilding capability in public sector organisations that must begin with recognising the government as a value creator in the economy – rather than a wasteful and inefficient value extractor. For this to happen, the public service must implement processes and investments that allow it to learn and adapt. It is also critical that public sector organisations are empowered to take risks. Regarding innovation, governments can also establish public labs and in-house consultancies. For genuine partnerships, governments can work with research institutions.

Mazzucato and Collington (2023) also call for investment in internal capacity and capability creation²¹ and for the public sector to attract competent, purpose-oriented and curious individuals. They highlight the need for digital infrastructure to be recognised as a valuable dimension of public sector capacity; for example, governments can seek to re-establish in-house information technology expertise. They point to the importance of embedding learning into contract evaluations instead of seeing the value of a relationship in transactional terms, in which capacity or expertise is provided in exchange for money. Instead, it should focus on knowledge-sharing agreements. Hence, we recommend that the Government commit to capacity building in the Australian public service.

¹ <https://www.abc.net.au/news/2023-03-16/australia-reliance-consulting-firms-high-cost-problem-government/102091810>

² Sikka, P. (2008), 'Enterprise culture and accountancy firms: New masters of the universe', *Accounting, Auditing and Accountability Journal*, Vol. 21, No.2, pp. 268-295.

³ Mazzucato, M. and Collington, R. (2023), *The Big Con: How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies*, Penguin, UK.

⁴ West, M. (2022), 'KPMG, EY revenues surge. What's the scam?', *Michael West Media: Independent Journalists*, 8 August 2022, <<https://michaelwest.com.au/kpmg-ey-revenues-surge-whats-the-scam>.

⁵ Sikka P. (2008) 'Globalisation and its discontents – Accounting firms buy limited liability partnership legislation in Jersey', *Accounting, Auditing and Accountability Journal*, Vol. 21 No. 3, pp. 398–426.

⁶ West, *ibid*.

⁷ Guthrie, J. and Lucas, A. (2022), 'Multinational tax integrity and tax avoidance by the fossil fuel industry: Part 1', <https://johnmenadue.com/multinational-tax-integrity-and-tax-avoidance-by-the-fossil-fuel-industry-part-1/>; Guthrie, J. and Lucas, A. (2022), 'Commentary on The Consultation paper by the Australian Treasury Multinational Tax Integrity and Tax Transparency: Part 2', <https://johnmenadue.com/multinational-tax-integrity-and-tax-avoidance-by-the-fossil-fuel-industry-part-2/>.

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- ⁸ Leigh, A. (2022), 'Speech to the OECD Forum on Tax Administration, Sydney', 29 September 2022, <<https://ministers.treasury.gov.au/ministers/andrew-leigh-2022/speeches/speech-oecd-forum-tax-administration-sydney>>.
- ⁹ Guthrie, J. and Sardesai, A. (2023) 'Vehicles for deception in NSW Transport and management consultants – Monsters or benign change agents?', working paper. See also, Chenoweth, N. (2023), 'PwC partner leaked government tax plans to clients', <https://www.afr.com/companies/financial-services/pwc-partner-leaked-government-tax-plans-to-clients-20230120-p5ceaz>
- ¹⁰ Mizen, R. (2022), 'KPMG, Deloitte, EY, PwC targeted with \$500m spending cut', <https://www.afr.com/politics/federal/kpmg-deloitte-ey-pwc-targeted-with-500m-spending-cut-20221021-p5brok>
- ¹¹ <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-performance>
- ¹² Mizen, R. (2022), 'Accenture beats the big four in record \$2b for Canberra work', <<https://www.afr.com/politics/federal/the-big-consulting-winners-from-record-government-spend-20220809-p5b8bb>>.
- ¹³ Tadros, E. (2023), 'PwC CEO defends firm over robo-debt work', <https://www.afr.com/companies/professional-services/pwc-ceo-defends-firm-over-robo-debt-work-20230310-p5cr2k>.
- ¹⁴ Tadros, E. (2023), 'Academic cited by Chalmers wants consultants to disclose client lists', <https://www.afr.com/companies/professional-services/academic-cited-by-chalmers-wants-consultants-to-disclose-client-lists-20230305-p5cpha>
- ¹⁵ McKenzie, N. and Crowe, D. (2023), 'Stuart Robert faces fresh questions over parliamentary committee lobbying', <<https://www.smh.com.au/politics/federal/stuart-robert-faces-fresh-questions-over-parliamentary-committee-lobbying-20230327-p5cvhr.html?btis>>.
- ¹⁶ Podger, A. (2022), '"A lazy cost-saving measure": The Coalition's efficiency dividend hike may mean longer wait times and reduced services', <<https://theconversation.com/a-lazy-cost-saving-measure-the-coalitions-efficiency-dividend-hike-may-mean-longer-wait-times-and-reduced-services-183361>>.
- ¹⁷ Tadros, E. (2023), 'Martin Parkinson blames Coalition for 'hollowed out' public service', <<https://www.afr.com/companies/professional-services/martin-parkinson-blames-coalition-for-hollowed-out-public-service-20230227-p5cnz5>>.
- ¹⁸ Mazzucato and Collington, *ibid*.
- ¹⁹ Tadros, E. (2023) 'Academic cited by Chalmers wants consultants to disclose client lists', *ibid*.
- ²⁰ Mazzucato and Collington, *ibid*.
- ²¹ Mazzucato and Collington, *ibid*, pp: 242–247.