



Att: Senator Dean Smith
Chair, Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
Canberra ACT 2600
via email to: jcpaa@aph.gov.au

15 February 2018

Dear Senator

Re: Submission to Joint Committee of Public Accounts and Audit - Inquiry based on Auditor-General's report No. 19 (2017-18)

As one of Australia's leading professional services firms, we believe we are well placed to share our perspectives on the important issues covered in the Auditor-General's report No. 19 (2017-18) (the Auditor-General's report).

We are committed to positively contributing to the Australian community, to supporting and enabling initiatives that will strengthen the future prosperity of our country and its citizens. Indeed, our global purpose is to *'Build trust in society and solve important problems'*. We are keen to play a part in helping government to make informed decisions about the efficiency and effectiveness of consultants engaged by agencies to support the work of the government.

Underpinning our detailed feedback (attached) are the following key reasons why we believe the use of external consultants has delivered value for money, improved efficiencies and secured stronger outcomes for the public sector.

Firstly, contracting arrangements enable the public service to access highly specialised skills as and when required. Rather than having specialists employed on full time loads where the skill may only be required infrequently, the public sector can access these skills on a project by project basis from the private sector. Further, the private sector builds and maintains a high calibre capability year round, ensuring the public sector can draw on best practice insights across industries and capabilities.

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Secondly, PwC and its consultants actively contribute to boosting the effectiveness of the public sector by providing knowledge and skills transfer. Our consultants work in partnership with their clients and key skills, knowledge, products and methodologies are often 'left behind' for the benefit of the client to draw on into the future

Thirdly, during an engagement, some responsibilities are transferred from the public sector agency to consultants. In many cases paying consultants to manage and mitigate risks can represent value for money if the consultant is better placed to do so than the client.

Finally, operating in a highly competitive environment, we're driven to deliver high value to our clients by continuing to be innovative and bring fresh thinking to a particular engagement, and by delivering material outcomes. In many cases this insight is based on best practice and from working with all of our clients - both public and private sector. This can ensure that government performance can be compared with other industries.

We would welcome the opportunity to discuss our views further. Please contact Tony on
or Tom on

Yours sincerely

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| Tony Peake National Government & Public Sector Leader PwC Australia | Tom Bowden Canberra Managing Partner PwC Australia |



About PwC Australia

PwC Australia is part of a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, consulting and financial advisory. We bring the power of our global network of firms to help Australian businesses, not-for-profit organisations and governments assess their performance and improve the way they work. Having grown from a one-man Melbourne accountancy practice in 1874, to the worldwide merger of Price Waterhouse and Coopers & Lybrand in 1998, PwC Australia now employs more than 7,500 people.

Our people come from a diverse range of academic backgrounds including business, accounting, tax, economics, engineering, finance, health, cyber, technology and communications, the arts and law. From varied matters such as assisting to improve the Australian health system, to performing due diligence on some of Australia's largest deals, providing confidence to shareholders and helping to protect the investments and superannuation of Australians, and working side-by-side with entrepreneurs, our teams bring a unique combination of knowledge and passion to address the challenges and opportunities that face our community.

It is also important to us, and ensures better results for our clients, when our firm draws on a diverse range of views. This is why we have targets to deliver a minimum of 40 percent women and 40 percent men making up our future partner admits, with the remaining 20 percent either gender. We also aim to have at least 30 percent of our partner admits from a diverse cultural background by 2020.

In addition to helping our clients, our vision and values underpin our efforts to make a wider contribution to the Australian community. We are an active contributor to direct and indirect employment in Australia. We directly employ staff who work and live in Australia, as well as specialist experts from across the world. We procure services from a wide range of suppliers, which include small and medium sized Australian enterprises and we partner with Australian and global subcontractors to deliver additional specialist services as and when required.

As we operate in the Australian market, we invest in property, equipment and other infrastructure and supplies to enable us to perform our services, and this helps support Australian businesses.

We're also proudly committed to developing the next generation of Australian workers. In 2018 we gave a career start to 451 graduates, 362 vacationers, 40 trainees, 37 industry based learning students and 12 co-op students.



Social Impact

At PwC we use the term social impact when we talk about corporate social responsibility. We are committed to staying connected with the communities in which we operate, listening to and talking with our diverse stakeholder network about what is important to them, today and tomorrow.

Whilst there is still a lot we want to achieve, at a high level, through our Social Impact activities, we have:

- 745 board and advisory roles held by our people
- Been recognised as a top 10 Corporate Social Responsibility organisation in Australia for the past 4 years
- 305 PwC people involved in mentoring activity
- 1% of our time pledged for social impact focused work.

Some of the initiatives we are actively involved with include our 21st Century Minds Accelerator Program¹, The Impact Assembly² and InnoWell³ - a joint venture between the University of Sydney and PwC to deliver digital health solutions to promote mental fitness.

We're also committed to improving outcomes for Indigenous Australians. PwC Indigenous Consulting (PIC)⁴, is a partnership between a group of Indigenous Australians and PwC to ensure Indigenous specific expertise is part of relevant client engagements. PIC is majority owned, led (both Chair and CEO) and staffed by Indigenous Australians. PIC provides trusted professional services and advice to government, corporate and community clients on indigenous matters.

Revenue that PwC Australia earned from Federal Government service provision over the past 5 years

As noted in the Auditor-General's report, the transparency and accuracy of the AusTender data is a continuing issue. Using our own business as an example, we note that in the

¹ <http://www.21stcenturyminds.com.au/>

² <https://www.pwc.com.au/corporate-responsibility/the-impact-assembly.html>

³ <https://www.innowell.org/people/>

⁴ <https://www.pwc.com.au/indigenous-consulting.html>



Auditor-General's report all PwC revenues were described as "consultancy". PwC, as a professional services firm, has three businesses: Assurance, Consulting and Financial Advisory.

The report also stated that PwC's total value of supplier contracts over the 5-year period 2012-13 to 2016-17 was \$523.532m, however our own reporting shows a lower figure of \$442.411m.

We believe that the difference between PwC's amount and that reported by the Auditor-General could be due to a number of factors, including:

- Timing differences
- Accruals accounting
- The AusTender data including estimates for panel contracts, whereas the PwC data includes actual revenues earned from panels.

Reasons for increased government procurement

In the 2014-15 Federal Budget the Government introduced the *Smaller Government* reforms package aiming to improve the efficiency and effectiveness of the Commonwealth public sector. The policy intention was "*reducing public sector staffing levels on a basis of deliberate decisions about functions, priorities and the proper scope of Government.*"⁵ Underpinning the reforms was a desire for the Commonwealth Public Service (public service) to improve its ability to:

- respond nimbly and realign its resources rapidly to address changing priorities
- manage costs
- utilise the skills (capability) and capacity of the private and not-for-profit sectors to deliver services at the same and better levels of quality at reduced cost.

Also introduced was the *Efficiency through Contestability Programme*⁶, led by the Department of Finance, which required Commonwealth entities to seek and apply the most efficient and effective way of designing and delivering government policies, programmes and services - embedding contestability and competition as a core operational principle within government.

⁵ The Hon Mathias Cormann, 'Smaller and More Rational Government 2014-15 Ministerial Paper', www.financeminister.gov.au/sites/default/files/publications/smaller-and-more-rational-government.pdf, 2014

⁶ Department of Finance, 'Efficiency through Contestability Programme – Toward Smaller, More Nimble Government', <https://www.finance.gov.au/sites/default/files/fact-sheet-smaller-government.docx>



Since this time, as detailed in the Auditor-General's report, there has been an increase in the total value of procurement contracts for external advisers. However, the overall combined cost of federal government administration, inclusive of the use of contracted services, has fallen.⁷

Reasons we believe the use of specialist consultants provides value for money and strong outcomes for the public sector

Access to specialist expertise, when required, at lower cost

A key benefit of the *Smaller Government* policy is the ability of the public service to access highly specialised skills as and when required. The public service does not need to attract and maintain a stand-up capability all year when particular specialist skills are only required temporarily, or are project specific and for a finite period. The capability the public service chooses to retain on a year-round basis may not be the same as the private sector. Essentially, the private sector builds and maintains a high calibre capability for the government, and its private sector clients, year-round, that they can draw on as and when required.

The public service does of course need a stand up, year-round capability in core function areas such as policy advice and implementation oversight. With increased private sector engagement, a core capability also needs to be instructing the private sector and contract management. Efficiency and effectiveness gains can only be achieved if the public sector is able to clearly define what they require and if they have the ability to communicate and interface on a day to day level with service providers. They also need the capability to hold service providers to account.

Consultants can also bring relevant cross-sector learnings and experience to the public sector, such as from the financial services and resources industries.

Knowledge transfer and capability building

We positively contribute to the effectiveness of the public service by enabling knowledge transfer and helping clients implement best practice approaches to facilitate improvements in their service offerings or outcomes.

⁷ The Hon Mathias Cormann, 'Media release - Cost of consultants', <https://www.financeminister.gov.au/media-release/2017/12/29/cost-consultants>, 29 December 2017



Our approach to knowledge transfer is based around learning from experiences, learning from exposure and exchange of ideas and understanding what works. This includes:

- Involving the client's team in the work we are doing, so they experience the 'doing' and are better prepared to own tasks in the future. One-on-one shadowing opportunities is one way we use to transfer knowledge and skills between the PwC team and the client
- Sharing and providing access to PwC methods, tools, templates and information to support the project
- Providing targeted training on specific tools, if clients request training for ongoing proficiency purposes
- Collaborating with our clients to define their specific knowledge transfer priorities and develop an agreed approach to ensure those goals are met, and that the right capabilities are being delivered to the right staff
- Developing a knowledge management system for all project documents, including our tools, methodologies and support documents.

Risk transfer to consultants from government

The Commonwealth Procurement Rules (CPR) state "risks should be borne by the party best placed to manage them; that is, relevant entities should generally not accept risk which another party is better placed to manage"⁸. In many cases paying consultants to mitigate risk can represent value for money. When consultants are engaged it is under a defined scope, with agreed deliverables and outcomes. Examples of the risk transfer to consultants from government agencies include:

- Getting the delivery right - particularly relevant with technology and cyber security projects that are increasingly large and complex, and require specific expert knowledge and skills
- Attracting and maintaining the right capability to deliver the job, both in terms of expertise (capability) and capacity
- Cost overruns (where contracts are fixed-price)
- Holding third party suppliers to account
- Fully understanding the wider market context (both the private and public sectors)
- Demonstrate integrity and articulate our opinions to alert clients to potential risks, even if it's not commercially beneficial.

⁸ Australian Government, 'Commonwealth Procurement Rules - March 2017', <https://www.legislation.gov.au/Details/F2017L00136>, 2017



We manage these risks through robust quality management systems, including building strong relationships with the client leads, learning from experiences, and exchange of ideas with the public service at all levels about what does and doesn't work. We expand further on this in the following section on our value proposition.

Ability to control the procurement environment

The Australian Government contracting environment is arguably a highly competitive market for consultants, with strong probity rules. The CPR are comprehensive and apply to all procurement contracts.

Within the CPR there are 'Rules for all procurements' which comprehensively outline rules around the following:

- Value for money
 - Considering value for money
 - Achieving value for money
 - Procurement-connected policies
 - Coordinated procurement
 - Cooperative procurement
 - Contract end dates
 - Third-party procurement
- Encouraging competition
 - Non-discrimination
 - Small and Medium Enterprises
- Efficient, effective, economical and ethical procurement
 - Ethical behaviour
- Accountability and transparency in procurement
 - Records
 - AusTender
 - Annual procurement plans
 - Notifications to the market
 - Providing information
 - Reporting arrangements
 - Subcontractors
 - Treatment of confidential information.

The CPR also set the framework for the establishment of panels, where a number of suppliers are appointed through a contract or deed of standing offer. A panel is formed following an



assessment of suppliers against evaluation criteria. Only suppliers that the public sector has agreed represent value for money are included on a panel.

Much of the work we do for government is won and conducted under government panel arrangements. In 2016-17 the majority of our federal government consulting revenues was from panel contracts. Panels have been implemented extensively over the past five to six years and we believe they have driven strong outcomes for government.

In a panel arrangement, a deed of standing offer or a contract exists between a department or agency and each supplier on the panel, detailing the type of services to be provided and setting the price at which services will be provided. The fees or rate card that each supplier agrees to at the establishment of a panel must be used when tendering for opportunities under that panel.

A contract is formed under a standing offer each time the department or agency purchases services under the panel arrangement. Therefore, although suppliers are included on a panel, each new contract for services procured under the panel will generally occur through a request for tender process, where all or a select number of panel members are invited to compete. Requests for tender require suppliers to respond by addressing detailed evaluation criteria which ensures the procuring entity has all relevant information to be able to choose the best supplier for the contract.

We have a strong commitment to meeting our obligations as a member of panels. We have a robust system in place to monitor opportunities and ensure we respond where we have expertise and capacity. We are committed to being an active member of all panels to which we are appointed.

Our value proposition

Value for money

Private sector consultants are routinely used by both governments and the private sector in Australia and globally. In FY17, PwC firms around the world provided services to 419 companies in the Fortune Global 500 and more than 100,000 entrepreneurial and private businesses⁹. These profit seeking businesses choose to work with us because they believe that the cost of our

⁹ PwC Global, 'Global Annual Review', <https://www.pwc.com/gx/en/about.html>, 2017



services represents value. Locally, it is estimated that in 2016 the Australian consulting market size was \$4,662 million, with the public sector representing only 8.2%¹⁰.

Consulting should not be confused with 'labour hire'. While labour hire (sometimes called contractors) can fill short term business as usual gaps, successful consulting engagements add value by introducing new thinking, skills and insight which all help clients to solve problems, deliver savings and improve services. We are working with clients to better equip them to contract to outcomes and rely less on individual arrangements. We agree with the notion that the use of labour replacement should be limited.

Our consulting practice is not a labour hire business. We rarely offer our people to fill roles where they are formally part of a public service team reporting to a public service manager.

Specialist skills

Our teams bring a unique combination of knowledge and experience to address the challenges and opportunities that face our community and the public service. Highly skilled, specialist teams can often be assembled at short notice and because of the size of our firm, we can also manage the need for surge capability when it's required.

Whether it's IT strategy, forensic data analysis, people and organisational change or economic feasibility and cost-benefit analysis, our consultants work with clients and communities every day to create value by reimagining what's possible. By working with us, the government effectively has access to this bank of knowledge and experience, and capacity, which means we can offer skilled and experienced people for each engagement.

The wide range of areas in which PwC has specialist capability include:

- **Data and analytics** - helping our clients find real value from their information
- **Cyber security** - protecting businesses, people and society from cyber risks
- **Actuarial services** - evidence-based analysis and advice for better pricing and customer segmentation, and for better financial reserving, forecasting and planning
- **Digital and technology impact** - combining business and industry insight with digital innovation, our teams help accelerate the successful impact digital can have
- **Aligning costs with business strategy** - we consider multiple cost implications and align priorities to fuel performance in a focused, accelerated way

¹⁰ SOURCE global research, 'The Australian Consulting Market in 2017', 2017



- **Creating unique customer experiences** - helping brands better create and deliver the right differentiating experiences to the right customers at the right time
- **Growing and creating competitive advantage** - helping clients apply and scale strengths to drive the business forward
- **Navigating risk and regulatory complexity** - we help clients manage risk as part of strategic planning and execution, not apart from them
- **Optimising deals** - helping our clients seize potential, avoid pitfalls, and adapt with agility to shape transformational deals anywhere along the deal spectrum - from deal strategy through value capture
- **Securing assets** - helping clients to better understand potential security weak spots and have the tools necessary to detect, respond and resolve these threats
- **Stimulating innovation** - helping clients to innovate boldly, and intelligently, to create and deliver new value
- **Transforming human capital (resources)** - helping clients make sure the right people with the right capabilities are in the right positions
- **Unlocking data possibilities** - helping clients to know more about their organisation, customers, employees, markets, and even complex economic dynamics

It would not be an efficient use of government resources for the public service to attract and maintain capability in the full spectrum of specialist areas, when they can access this expertise and capacity on shorter term arrangements as and when required. Our people can also bring cross-sectoral experience for the benefit of the public sector (e.g. customer service expertise from the retail or telecommunications sectors may translate to citizen facing departments and agencies).

Our experience also shows that the key to our success is our people and that the continued development of their knowledge, skills, confidence and experience is fundamental to delivering the best outcomes for our clients. Our learning culture is based on the '70:20:10' principle where 70 percent of learning comes from the work we do; 20 percent from the guidance we receive from others; and 10 percent from formal learning, including further education programs. We also ensure all relevant resources have current Australian Government security clearance so they are 'ready to go' when required.

Quality

PwC has rigorous quality assurance and risk management systems and controls in place to maintain the standards of service that we provide. We see quality services as those which consistently meet our clients' requirements.



What do our government clients say about working with us?

The following feedback has been received by our Client Experience team and has been de-identified to protect individual privacy.

In response to the question, What did we [PwC] do well?

"We value the skill transfer this opportunity brings, and ensuring the right knowledge, tools and processes are established with the project team to ensure work can be picked up and maintained moving forward." A federal government client

"Senior staff actually work on the job with the client rather than just drop in to review. This is worth paying for." A major Australian University client

"Deliver my vision which is often hard to convey; help me bring the vision to life and deliver what was promised; create leading solutions that are complex; and understand the reality of commercial pressure and my political context which has many moving parts." A local government client

"Sound advice, broader than the context of the specific engagement. Connecting me with relevant experts both within PwC and externally. Putting forward a very clear Innovation proposal that showed great insight into our business, was tailored to our specific needs and demonstrated a strong willingness to partner and have skin in the game. Demonstrated very well that that PwC is not just about consulting and advisory, but has applied deep technical expertise, and is keen to further develop that and learn in partnership with us." A federal government client

"PwC has a very good understanding of government - its processes, constraints and the often iterative nature of the work. I am always very impressed with PwC's knowledge of programs, particularly the Indigenous focussed one I worked with them on; the stakeholders, sensitivities and complexities of the work and the environment they were stepping into. The work was incredibly sensitive and PwC undertakes it with professionalism, compassion and rigour. I feel like PwC is always a partner in the work we have done together and is always very flexible in adjusting deadlines and/or deliverables as requirements and timeframes change." A federal government client

"They have a similar ethos, work hard, are flexible, are open and overall have found them the best company to work with." A federal government client

Focus on the future

To maintain our position in the market and ensure we continue to deliver for our clients, we have a focus on the future and continue to refine and innovate the ways in which we deliver services. Based on client needs and changes in society we are constantly looking for new talent, new methodologies and new technologies to help solve important problems. Technologies such



as blockchain, artificial intelligence, augmented and virtual reality, and the internet of things are rapidly reshaping our world and we want to be at the forefront of these developments so we can put them to work for our clients.

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