



Extract from the report to the
Public Accounts Committee on
the government's use of consultants

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I. Introduction and results

1. This report is about the government's use of consultants. The audit was initiated at the request of the Public Accounts Committee.

An article brought in a Danish weekly publication called "A4", which is primarily focusing on labour market and social policy issues, in combination with other factors lead to the request from the Public Accounts Committee. According to the article published in A4, consultants were in some cases engaged to perform tasks that the government institutions had the capabilities to perform themselves. The Public Accounts Committee therefore asked Rigsrevisionen to perform a cost/benefit analysis of the government's use of consultants.

2. Consulting is among the government's top spending areas. It is difficult to set standards for the area, as the services provided are often case- and institution-specific.

3. Rigsrevisionen has on a previous occasion examined the government's use of consultants, i.e. in report no. 10/06 - The government's use of consultants. According to this report, the government institutions' procurement of consultancy services could be more strategic, but generally the institutions' approach to using consultants was considered to be cost conscious.

4. In accordance with the request of the Public Accounts Committee, this report is focused on determining whether the institutions' procurement of consultancy services has become more strategic; the Public Accounts Committee has asked Rigsrevisionen to examine various matters including the government's total spend on consultancy services, ethical guidelines for the procurement of consultancy and follow up on the benefits of consultancy services provided.

5. At its meeting in November 2009, the Public Accounts Committee approved the memorandum of the Auditor General concerning the organisation of a major examination of the government's use of consultants.

6. On the basis of the request of the Public Accounts Committee, Rigsrevisionen has formulated the following questions to be answered by the audit:

- Is the database of the Agency for Government Management providing an overall view of the government's total spend on consultants and is it providing a platform for joint framework agreements?
- Are selected institutions using consultants strategically?
- Are selected institutions following up procurement of consultants and assessing the benefits of services provided?

Consultancy services

Rigsrevisionen is defining consultancy services as services provided by an external individual, who for a limited period of time is engaged by an enterprise to perform a specific task.

The services usually include various forms of counseling, assessments, etc.

Ethical guidelines

In 2007, the State Employer's Authority issued a publication called "Good behaviour in the public sector" to provide guidance to employees in government institutions. In 2010, the Authority has complemented this publication with a memorandum presenting examples of gifts that public-sector employees are allowed to accept.

The procurement database of the Agency for Government Management

Since 1 January 2007, all ministries have been obliged to report data on their procurement, including procurement of consultancy services, to the database of the Agency for Government Management. The data reported include amounts, category of purchase and in some instances name of supplier.

7. The examination covers the period 2008-2009, as the Agency for Government Management's database of government procurement (in the following referred to as the "procurement database") could not till 2008 produce estimates of the government's total spending on consulting. The first section of the examination is dealing with the Agency for Government Management's estimate of the government's total spend on consulting in 2008 and 2009. The second and third sections of the examination are about three selected institutions' use of consultants in 2008, primarily.

8. The three institutions are SKAT (the Danish tax authority), the department of the Ministry of Education (in the following the Ministry) and the Agency for Spatial and Environmental Planning. It appears from the procurement database that these three are among the institutions that are spending the most on consultants.

SKAT and the Ministry were also included in Rigsrevisionen's previous examination of the area in 2006, whereas the Agency for Spatial and Environmental Planning, which is part of the Ministry of the Environment, was not established till 2007. However, the Ministry of the Environment has been involved in the former examination which included an audit of the National Forest and Nature Agency's procurement of consultancy services.

9. Rigsrevisionen has not, for the projects included in the audit, assessed the institutions' management of the risk related to in particular large IT purchases, including changes in delivery schedules, price and quality. Neither has Rigsrevisionen assessed whether the government institutions have selected the right consultants for the tasks or whether procurement has been adequately managed taking into consideration the basis for agreement, inherent risks, etc.

MAIN FINDINGS AND CONCLUSIONS

Government's total spend on consultants was approximately DKK 4 billion annually in 2008 and 2009. Rigsrevisionen's examination shows that the procurement database of the Agency for Government Administration has increased the volume of data available on the government's expenses for consultancy services by institution and type of consultancy service. Up to now, however, the database has only to a limited extent contributed to creating a platform for joint framework agreements in the consultancy area.

Two of the three selected institutions are only to some extent using consultants strategically. This is not satisfactory and emphasizes a general need for government institutions to ensure strategic use of consultants.

Lack of in-house skills, a need to have an objective view on a matter and/or a need for additional resources are the main reasons why institutions choose to use consultants.

Rigsrevisionen finds that in general government institutions should provide evidence of their deliberations preceding their decisions to use consultants for a given task. The institutions should in particular be able to provide evidence that their decisions to engage consultants to meet a requirement for additional resources are based on overall financial assessments.

The State Employer's Agency has worked out the publication "Good behaviour in the public sector" and it includes general guidelines for the cooperation between institutions and private businesses, for instance with respect to the acceptance of gifts, invitations, etc. Rigsrevisionen finds that government institutions should ensure that clear and specific ethical guidelines for the institutions' cooperation with consultants and businesses are in place.

This overall assessment is based on the following factors:

The Agency for Government Management's procurement database provides an overall view of the government's total spend on consultants, which was approximately DKK 4.2 billion in 2008 and DKK 3.9 billion in 2009. Up to now, the database has only to a limited extent contributed to creating a platform for joint framework agreements in the consultancy area. The Agency should ensure that the level of detail relating to the data in the database is adequate to serve as a foundation for the entering of joint framework agreements in the consultancy area.

- As of now the Agency for Government Management has entered two framework agreements in the IT consultancy area. The agreements have not been utilized to the extent expected. The Agency for Government Management has not made any agreements covering other consultancy services, but has stated that in the autumn of 2010 it will invite suppliers to tender for yet another IT consultancy agreement.
- The procurement database of the Agency for Government Management can estimate the government's total spend on consultants in 2008 and 2009 by institution and two types of consulting service; IT consultants and other consultancy services. The Agency for Government Management has stated that increasing the number of procurement categories and the level of detail would facilitate the strategic considerations as to which consultancy services that can effectively be included under joint framework agreements. However, the value added should, according to the Agency, be measured up against the administrative burdens, including for instance increased consumption of resources for the registration of purchases of consultancy services.
- According to the procurement database, the government's total spend on consultants was approximately DKK 4.2 billion in 2008 and approximately DKK 3.9 billion in 2009. The ministries are responsible for reporting data into the procurement database. The examination has shown that reporting into the database is not entirely consistent, and the database is thus incomplete. For instance, two ministries have failed to report data on 2008.
- Moreover, the institutions are not using the procurement categories consistently. SKAT has, for instance, has not been consistent in its use of the procurement categories in 2008 and 2009; expenditure reported under the procurement category "IT consultants" is therefore DKK 243 million too high in 2008 and DKK 204 million too low in 2009. Taking this into account, the government's total spend on consultants can be estimated at approximately DKK 3.9 billion in 2008 and approximately DKK 4.1 billion in 2009. It should be noted though that SKAT has reported all relevant expenditure for consultants, as have the Ministry of Education and the Agency for Spatial and Environmental Planning.

A couple of large suppliers are handling a relatively large share of the government IT consulting market. There may be excellent reasons for this, as consulting companies often possess the expertise and experience required to perform the tasks. To this should be added that the tender rules are designed to ensure that the consulting contracts are awarded in competition. In the area of consultancy services outside the IT area, the government tasks are performed by considerably more companies. No specific suppliers are dominating this area. The database cannot provide a complete estimate, as the data on approximately one third of the consultancy engagements do not include the names of the suppliers.

SKAT is using consultants strategically. The Ministry of Education and the Agency for Spatial and Environmental Planning are only to some extent using consultants strategically. This is not satisfactory. Rigsrevisionen is also of the opinion that in particular procurement of consultancy services to meet requirements for additional resources should be based on financial assessments of the benefits of using consultants rather than in-house resources. SKAT is the only one of the three institutions that has worked out a code of ethics for staff's relation with external partners.

- SKAT is the only one of the three selected institutions that has worked out an overall strategy addressing its use of IT consultants, management consultants and other consultants. The Ministry of Education has formulated a strategy for the use of IT consultants, but has not at this point defined a strategy for the use of management consultants and other consultants. The Agency for Spatial and Environmental Planning has formulated a strategy for the use of consultants with specialized technical skills within nature and environmental monitoring, but has not defined a strategy for the use of other types of consulting services.
- The three institutions use consultants frequently when they lack specific in-house skills, need an objective assessment or need additional resources to perform a particular task. The institutions often engage consultants to cover several different requirements.
- More than half of the cases reviewed in the Ministry of Education and the Agency for Spatial and Environmental Planning, that involved procurement of consulting, are relating to areas for which the two institutions have not yet defined any strategy. For instance, this applies to the consultancy engagements that are based on the institutions' need to bring in additional resources.
- Many of the purchases reviewed did not include any evidence of the considerations underlying the institutions' decisions to use consultants. Rigsrevisionen finds that government institutions should in general document the considerations underlying their decision to use consultants to perform a specific task.
- The institutions that have had a requirement for additional resources have been able to account for the considerations that preceded their decision to use consultants to perform a specific task. It should be possible to base in particular consultancy engagements of this nature on an overall financial assessment of the benefits of using consultants rather than in-house staff. The Ministry of Finance agrees with Rigsrevisionen on this point.

- SKAT has worked out a code of ethics providing general guidance on the acceptance of invitations, gifts, etc. from external partners. The Ministry of Education and the Agency for Spatial and Environmental Planning have not drawn up specific rules for the cooperation with consultants.

Generally, SKAT, the Ministry of Education and the Agency for Spatial and Environmental Planning follow up consultancy engagements and assess the benefits of the services provided. Documentation of follow-up procedures and assessment of consultancy output against specifications is missing only in a few cases. However, the institutions do not in general assess their own project management and their cooperation with the consultant to ensure that relevant data are collected.

- As regards the projects reviewed, the three institutions have all described the required output of the consultancy and the tasks involved, and they have followed up on the delivery of the consultancy service and consultancy output.
- In the majority of cases, the institutions are also able to provide evidence of ongoing follow-up procedures, i.e. in the form of minutes of meetings with consultants or in-house assessments.
- Only in a few cases, including a major case managed by SKAT, have the institutions failed to provide evidence of ongoing follow-up routines or final assessments of consultancy output against specifications. Rigsrevisionen is of the opinion that in relation to major projects in particular, the institutions should be able to document their follow-up routines in relation to the consultancy services provided and assessment of consultancy output against requirements.
- The institutions have in a few cases included their own project management in the assessment of the consultancy service. In the majority of cases, however, the institutions have not assessed their own project management performance and their cooperation with the consultant. Rigsrevisionen is of the opinion that assessing their own project management performance and cooperation with the consultants would provide the institutions with an opportunity to collect relevant data on the purchases.