

ANNUAL COMPLIANCE REPORT ON THE USE OF EXTERNAL CONSULTANTS

2013-14



Department of Finance & Personnel

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INTRODUCTION

1. The use of external consultants can bring an expertise which existing members of staff may not have, an additional resource when it is not available internally, or can provide an independent view or assessment when required.
2. However, while external consultancy support has proved critical to the successful delivery of many projects, it is important that public bodies properly procure, manage and review all external consultancy assignments. Public bodies need to plan their use of external consultants so that they are used only when necessary and to ensure that their knowledge and skills are deployed only where such use represents value for money.

BACKGROUND

4. The latest guidance on the Use of External Consultants was issued under FD (DFP) 07/12 and came into effect 1 April 2012. In addition to providing details of the framework that applies to the use of external consultants, this states that DFP will:
 - commission annual returns from departments in order to monitor compliance with the guidance;
 - seek an assurance that the information provided by departments in these returns has been reconciled with departmental accounting systems/Account NI and is consistent with Departmental Resource Accounts and budgetary outturn information;
 - review procurement issues, such as the use of direct award contracts;

- analyse the returns and carry out test drilling exercises to cover external consultancy assignments under delegated limits and not forwarded directly to DFP for approval; and
 - produce this annual compliance report to summarise its findings.
5. An analysis of all expenditure on external consultancy in 2013-14, including key findings and associated recommendations, is provided in this report. As part of its ongoing dialogue with departments, DFP has discussed the specific findings and conclusions with individual departments.

ANALYSIS OF EXPENDITURE ON CONSULTANCY

Overall Expenditure

6. Based on the returns provided to DFP, NI departments spent £6.70 million on external consultants during 2013-14, covering 268 external consultancy projects. This represents an 12% decrease on comparable spend in the previous year. Table 1 (below) provides an analysis of the total spend on external consultants for the 2013-14 financial year by department, including agencies and NDPBs/other arms length bodies.

Table 1: Total Consultancy Expenditure by Department

	£m	
NI Department	2013-14	2012-13
DARD	0.10	0.22
DCAL	0.05	0.15
DE	0.23	0.21
DEL	0.24	0.16
DETI	0.64	0.73
DFP	0.15	0.30
DHSSPS	0.72	0.81
DOE	0.46	0.65
DOJ	0.21	0.30
DRD	0.54	0.40
DSD	1.26	1.11
OFMDFM	0.88	1.59
AOCC	*0.00	*0.00
FSA	*0.00	0.00
NIAC	0.01	0.05
NIAUR	1.20	0.96
PPS	0.01	0.00
TOTAL	6.70	**7.65

* Expenditure less than £5,000 which is not shown due to roundings.

** Total may not agree due to roundings.

7. Table 2 provides an analysis of the total number of consultancy projects on which expenditure was incurred during the 2013-14 financial year by department, including agencies and NDPBs/other arms length bodies and indicates a like for like reduction of 6% compared to 2012-13.

Table 2: Total Number of Consultancy Projects by Department

NI Department	2013-14	2012-13
DARD	8	6
DCAL	7	10
DE	12	15
DEL	22	12
DETI	22	23
DFP	15	12
DHSSPS	25	22
DOE	12	15
DOJ	14	23
DRD	20	23
DSD	34	32
OFMDFM	26	39
AOCC	1	1
FSA	1	0
NIAC	5	10
NIAUR	43	42
PPS	1	0
Total	268	285

Expenditure by Category of Consultancy

8. Table 3 (below) compares the amount spent on each of the categories of external consultancy as set out in FD (DFP) 07/12, with comparable expenditure in 2012-13. Expenditure against each of these categories is recorded on the Account NI system using individual account codes and it is in line with OGC guidance applying across the UK.

Table 3: Expenditure by Category of Consultancy

Type of Consultancy	£m	
	2013-14	2012-13
Strategy	2.08	2.08
Finance - Strategic Finance	0.64	1.15
Finance - Operational Finance	0.11	0.25
Organisation & Change Management	0.27	0.30
IT/IS	0.09	0.10
Property and Construction	0.95	0.34
Procurement	0.01	0.01
Legal Services	0.30	0.70
Marketing & Communication	0.03	0.26
Human Resource, Training & Education	0.04	0.01
Programme & Project Management	0.22	0.18
Technical - Project Support	1.54	1.09
Technical - Engineering and Technical Support	0.16	0.38
Design and Development (including system delivery)	0.26	0.80
Total	6.70	7.65

9. This information will assist providers of training and internal consultancy services, such as the Centre for Applied Learning (CAL) and DFP's Business Consultancy Service, in terms of informing decisions as to their provision of training/consultancy services.

Top Ten Providers of External Consultancy Services

10. The top ten providers of external consultancy (in terms of the amount paid to them in the financial year 2013-14) are listed in Table 4(a).

Table 4(a): Top Ten Providers of External Consultancy Services by expenditure in 2013-14.

	£m
Consultancy Firm	2013-14
KPMG	0.68
Deloitte	0.53
Ernest & Young*	0.41
PricewaterhouseCoopers	0.40
Poyry	0.39
Paul Hogarth Company	0.34
First Economics*	0.18
Arthur Cox	0.17
GVA Grimley Limited	0.17
Gemserv	0.15
Total	3.42

*includes projects undertaken jointly with other providers

The top ten providers of external consultancy in 2012-13 are listed for comparison in Table 4(b).

Table 5(b): Top Ten Providers of External Consultancy Services by expenditure in 2012-13.

	£m
Consultancy Firm	2012-13
Ernst & Young	0.66
Deloitte	0.60
Arthur Cox	0.58
PriceWaterhouseCoopers	0.56
KPMG	0.37
CEPA	0.28
McClure Watters	0.26
Pinsent formerly McGrigors	0.21
URS	0.20
Copius Consulting	0.20
TOTAL	3.92

DFP APPROACH TO REVIEW

11. As part of its review, DFP has examined all projects for which prior DFP approval was required (i.e. those over departments' delegated limits) and a sample of those projects below the delegated limit (37 projects out of 228, representing a sample size of 16%). The size of sample on a departmental basis was determined on the basis of factors such as past performance, the level of external consultancy projects undertaken by the department concerned, and total expenditure on external consultancy.
12. Departments provided business cases/economic appraisals for all those projects examined as part of the review.
13. In reviewing the projects selected, DFP focused on:
 - rationale for the decision to use external consultants, including the quality of the business case/economic appraisal;
 - procurement; and
 - post project evaluation.

KEY FINDINGS EMERGING FROM ANALYSIS

Rationale for the decision to use external consultants

14. DFP is satisfied that the 40 projects which were above the delegated limit (totalling £3.38 million expenditure in 2013-14) were approved by DFP based on a satisfactory business case provided by the department.
15. In one of these cases DFP approval was sought and secured retrospectively. In providing retrospective approval DFP acknowledged that there were unusual circumstances which contributed to the need to seek approval retrospectively. DFP is satisfied that it would have granted

approval had it been approached properly in the first place; and that the department is taking steps to ensure that there is no recurrence.

16. Of the 37 consultancy cases below the delegated limit that were examined, DFP found that in 36 cases the information which departments provided met the requirements of the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) and thus DFP would have been content to approve the project had it been above the relevant department's delegated limit.
17. In the remaining case DFP has informed the department that, had the project been above the delegated limit, additional information would have been required. The key issues which DFP believes were not sufficiently addressed in this case include:
 - a. examination of opportunities for skills transfer to in-house staff;
 - b. assessment of level and cost of in-house support; and
 - c. explanation of arrangements for post project evaluation.
18. In addition to this test drilling of a sample of projects below delegated limits, DFP also examined the information provided by departments in their annual consultancy returns regarding the formal approval process within departments for the decision to employ external consultants across all projects during the 2013-14 year. DFP identified a total of 3 cases (1%) in which contracts were entered into during 2013-14 in advance of formal approval being given at the appropriate level within the department/arms length body and these are listed in Annex 1. This compares with 5 cases (2%) in 2012-13.
19. While departments' performance at providing business cases represents an improvement on previous years, DFP believes the failure of departments to have secured the necessary formal approval in all cases prior to entering into a contract, continues to represent a failure of internal

control. DFP has written to the departments concerned and will continue to work with departments to address these issues going forward.

Procurement

20. One of the key areas upon which DFP continues to focus is procurement, and in particular the use of direct award contract (also known as a “single tender action”) as opposed to competitive tendering.
21. DFP recognises that there may be certain circumstances which may preclude the use of competitive tendering, and for that reason the provision exists for Departmental Accounting Officers (i.e. the Permanent Secretary of the Department) to approve a decision to procure external consultancy services via a direct award contract. However, the intervention and role of the Departmental Accounting Officer in those circumstances is absolutely central to confirming the need for a direct award contract and the associated value for money.
22. In 2013-14 departments reported entering into direct award contracts in 41 cases involving expenditure of £0.77 million (which compares to 41 cases involving expenditure of £0.73 million in 2012-13). Departmental Accounting Officer approval was not sought in one of these cases, involving expenditure of £1,000. The details of this case are at Annex 2.
23. DFP welcomes the continued restraint in use of direct award contracts and would remind departments that direct award contracts must be considered and employed only when their use complies with the guidance contained within Procurement Guidance Note 03/11, issued by DFP to all departments on 24 November 2011.

Post Project Evaluation

24. As part of the business case approval process, DFP monitors on an ongoing basis the completion of Post Project Evaluations (PPEs) by departments for all projects above the delegated limit. Of the 40 projects above delegated limits in 2013-14, there are 24 that are not yet at the stage at which a PPE is due to have been completed. Of the 13 PPEs due, all have been completed, and where PPEs could be improved DFP has provided advice and recommendations.
25. As regards the 37 projects below delegated limits which were selected for test drilling, in 6 cases for which DFP would have expected a PPE to have been completed, the departments were unable to provide any evidence that post project evaluation had been carried out. DFP has written to the departments concerned to highlight the issue. The details of these cases are set out in Annex 3.
26. In the remaining 31 cases DFP is content that for those cases for which PPEs are due to have been completed they have been completed and where PPEs could be improved DFP has provided advice and recommendations.

CONCLUSIONS

27. Overall, the data for 2013-14 demonstrates a further reduction in both the expenditure on external consultants by departments and the number of external consultancy projects. Total expenditure fell from £7.65 million in 2012-13 to £6.70 million in 2013-14. This is a 12% decrease on spend on the previous year, and represents a reduction of 80% since annual reporting was reintroduced in 2007-08 (when expenditure by the Department of Justice and Public Prosecution Service is excluded to allow a direct comparison).

28. In terms of the key issues examined:

Rationale for the decision to use external consultants

29. In general, DFP has been satisfied with the performance of departments in relation to the quality of business cases received for external consultancy projects above delegated limits, with all 40 projects having DFP approval based on a satisfactory business case, albeit that in one case this approval was requested retrospectively.
30. DFP is pleased to be able to report that in all 37 projects below delegated limits which were selected for test drilling, a business case had been completed and was provided to DFP. In 36 cases out of 37 cases, DFP considered the business case to be of a satisfactory standard, while in the one remaining case DFP would have required further information, had DFP's approval been required for the project.
31. It is disappointing, however, that in 3 cases (1%), contracts were awarded for external consultancy projects in advance of the formal approval being given at the appropriate level.

Procurement

32. DFP recognises that direct award contracts can sometimes be appropriate, but it is of fundamental importance that all such cases should be properly justified and approved. Direct award contracts were entered into in 41 external consultancy projects in 2013-14, accounting for £0.77 million (11%) of expenditure on external consultants.
33. DFP guidance (PGN 03/11) makes it clear that prior Departmental Accounting Officer approval is required for all decisions to employ external consultants through a direct award contract. It is disappointing that in one case in 2013-14 an external consultancy project was procured

through direct award action without having prior Departmental Accounting Officer approval for this choice of procurement. DFP has written to the department concerned to highlight the issue.

Post Project Evaluation

34. Post project evaluations are an integral part of the economic appraisal process and should be completed to ensure valuable lessons are learnt and also to avoid repeating mistakes. DFP remains concerned at the number of uncompleted and outstanding PPEs in 2013-14 among projects below delegated limits in some Departments. DFP has written to the Departments concerned to highlight this issue and urge them to comply with the guidance. Of the PPEs carried out and received, DFP has provided advice and recommendations where they could have been improved.

35. DFP continues to encourage departments to share lessons learned from the evaluation of projects which would be of benefit to other departments. This process has been facilitated by making lessons learned from the post project evaluation of external consultancy projects a standing item at stocktake meetings between DFP Supply teams and departments' Finance Directors.

Annex 1

Projects were contracts were entered into in 2013-14 in advance of formal approval being given at appropriate level.

	<u>Dept.</u>	<u>Project</u>	<u>Total Contract Value</u>
•	DHSSPS	NHSCT Turnaround and Support Team	£130,000
•	DHSSPS	BSO Centre of Procurement Expertise Accreditation	£12,000
•	DOJ	NI Community Safety College	£60,000

Annex 2

External consultancy projects procured via direct award contracts without Departmental Accounting Officer approval.

	<u>Dept.</u>	<u>Project</u>	<u>Total Contract Value</u>
•	DOE	NILGOSC Corporation Tax Status	£1,000

Annex 3

Projects below delegated limits for which PPEs were requested by DFP during the test-drilling exercise, but for which no PPEs were provided.

	<u>Dept.</u>	<u>Project</u>	<u>Total Contract Value</u>
•	DEL	NRC and SRC to Develop Outline Business Case for Estates Project	£48,000
•	DCAL	Sports Council for Northern Ireland Value for Money review	£13,445
•	OFMDFM	Desertcreat – Critical Friend	£28,118
•	DOE	NI Retail Research	£67,625
•	DOE	Revision of NI Waste Strategy and Plan	£29,000
•	DHSSPS	BHSCT Review of Low Temperature Hot water System	£25,000