



Northern Ireland Audit Office

Use of External Consultants by Northern Ireland Departments: Follow-up Report



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
15 June 2011



Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

Use of External Consultants by Northern Ireland Departments: Follow-up Report

This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Northern Ireland Assembly in accordance with Article 11 of that Order.

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Comptroller and Auditor General

Northern Ireland Audit Office
15 June 2011

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Abbreviations

ALB	Arms Length Body
BELB	Belfast Education and Library Board
CAL	Centre for Applied Learning
CoPE	Centre of Procurement Expertise
DARD	Department of Agriculture and Regional Development
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DoE	Department of Environment
DRD	Department for Regional Development
DSD	Department for Social Development
OFMDFM	Office of First Minister and Deputy First Minister
NDPB	Non-departmental Public Body
NIAUR	Northern Ireland Authority for Utility Regulation
NICS	Northern Ireland Civil Service
NIHE	Northern Ireland Housing Executive
NIPPES	Northern Ireland Public Private Partnership Education Service
OJEU	Official Journal of the European Union
PAC	Public Accounts Committee
PPE	Post Project Evaluation
PPP	Public Private Partnership
SIB	Strategic Investment Board

Executive Summary



Executive Summary

Introduction

1. Northern Ireland Government departments purchase professional services from a wide range of organisations in areas such as management consultancy, financial services and information services. These can be sub-divided into two broad categories:
 - **External consultancy services** which are professional services provided for a limited period of time to carry out a specific, finite or “one-off” task or project; and
 - **Managed services** where professional services are used in a “business as usual” environment. Managed services incorporate staff substitution and contracted services.
2. Aggregate spending on external consultants is significant. Over the period 2005-06 to 2009-10, Northern Ireland departments (including agencies, non-departmental public bodies and health trusts) have spent £144 million on external consultancy services. Expenditure peaked in 2006-07 at £42m but has subsequently fallen to £19.46m in 2009-10.
3. In June 2004, the Northern Ireland Audit Office published a report that examined the use of external consultants. At that time we found that departments were failing to comply fully with DFP guidance and that there was considerable scope to improve their procurement and management of external consultancy services.
4. Our 2004 report was the subject of a Public Accounts Committee (PAC) hearing and the PAC subsequently produced its own report in February 2008. This report found that the cost of external consultancy to Northern Ireland Civil Service departments had almost doubled in five years. It also found that, in a significant number of cases, departments were not undertaking business cases, were not tendering competitively; were not conducting post project evaluations; and that a significant percentage of contracts had encountered extensions and/or cost overruns.
5. In response to the PAC report, the Department of Finance and Personnel (DFP) implemented a number of actions to improve the use of external consultants by departments. New guidance was issued in 2009 and DFP also introduced an annual compliance report to review the use of external consultants across all departments and circulate the findings so that best practice could be shared.

Compliance with DFP Guidance and Good Practice

6. The overall level of compliance with DFP guidance and good practice has improved significantly since our June 2004 Report. There is a substantial increase in the proportion of contracts completing business cases and post project evaluations and a reduction in the extent of single tender actions.
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7. Nevertheless, there remains room for improvement. Around 1 in 5 external consultancy contracts that we sampled were not being tendered competitively, making it difficult to demonstrate that value for money has been achieved; and 39.5 per cent of the contracts we sampled experienced cost overruns, indicating that projects could be better scoped and managed.
8. Before engaging external consultants, departments must ensure that their use is necessary and represents value for money. A full, but proportionate, business case should be completed for all external consultancy contracts. In our June 2004 report, we noted that, in almost three quarters of cases, departments failed to produce business cases. In our current review, we found a significant and welcome improvement in the level of compliance. Nevertheless there were still 12 per cent of contracts for which no business case had been prepared, including a small number of high value cases.
9. Where business cases are required, it is important they are prepared in a considered manner and are not simply a 'tick box' exercise to satisfy the requirements of the guidance. In our opinion, a substantial number of the business cases we reviewed were not sufficiently proportionate to the scale of the assignment being undertaken and failed to comply fully with the guidance. For example, we found weaknesses in terms of failure to estimate costs, identify benefits
- or establish performance review arrangements.
10. One of the key reasons for using external consultants is where specialist skills and expertise are not available in house. Therefore, where appropriate, the use of external consultancy support presents an opportunity for departments to develop their own internal staff. This should assist departments in building up their own internal expertise for use on similar assignments in the future. However, only 33 per cent of the business cases we reviewed made reference to the transfer of skills. The majority of external consultancy contracts were therefore let without any documented evidence of whether opportunities for skills transfer existed or could be put in place.
11. Competitive tendering offers departments the best means of ensuring that they achieve value for money in procurement and helps demonstrate propriety in the use of public funds. We found that 18 per cent of contracts (16 cases) we sampled were single tender actions and not, therefore, subject to competitive procurement. There may be certain circumstances where single tender actions may be appropriate and provision exists in these circumstances for Accounting Officers to approve this decision. We note that the single tender action had been approved by the Accounting Officer in 10 of the 16 cases we identified in our sample.
12. The use of procurement professionals should improve the means by which departments purchase external
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Executive Summary

consultancy services. We found that 71 per cent of the contracts we reviewed had been procured using the services of a Centre of Procurement Expertise (CoPE). Generally we found that the procurement of these contracts had observed relevant guidelines and that there was a clear audit trail documenting tendering process. We note that 52 per cent of contracts that were awarded without any CoPE involvement had not been competitively tendered compared with only 8 per cent of those that had CoPE involvement.

13. Project overruns can occur for a variety of reasons including changes in legislation, poor initial scoping, appraisal, management or control of consultants and can impact significantly on the total final cost of projects and on the delivery of outputs. Departments therefore must ensure they have in place appropriate project management arrangements to help departments minimise the incidence of project overruns. However, despite an improvement in this area, 39.5 per cent of our sample still experienced cost overruns.
14. Post project evaluations (PPEs) provide an opportunity for departments to assess the performance of consultants, confirm whether value for money was achieved and identify lessons for future engagements. PPEs had been completed for 69 per cent of the contracts we reviewed. This represents a significant improvement in the level of compliance noted in our 2004 report when only 12 per cent of contracts had a PPE.
15. However the quality of the PPEs we reviewed varied greatly and they were not always reflective of the scale of the assignment under review. Generally, the evaluations lacked detail and identified few lessons that could be applied in securing future value for money savings.

The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending

16. Consultancy can be difficult to define and distinguishing between external consultancy, staff substitution and contracted out services can be complex. The 2008 PAC report recommended that departments should ensure that they give comprehensive and consistent information on consultancy expenditure in response to requests from elected representatives.
17. DFP's most recent guidance on the use of consultants provides advice on how departments should sub-divide professional services expenditure between external consultancy services and managed services.
18. Despite this, we identified a number of specific inaccuracies in relation to the expenditure data we received and the sample of external consultancy contracts we assessed. This included the provision of expenditure figures which were inconsistent with those published in DFP's annual compliance report; and, we found that 13 per cent of the contracts we sampled had been incorrectly recorded as external consultancy assignments, when

they should have been classified as either staff substitution or contracted out services.

19. In response to a recommendation in the PAC's 2008 report, DFP undertakes a test-drilling exercise on departments' external consultancy expenditure and produces an annual compliance report, summarising the results of this exercise. We noted that there have been significant delays in producing the annual compliance report. The 2007-08 annual compliance report was published 15 months after the year end, and the 2008-09 annual compliance report was published 19 months after the year end.
 20. To be of value, the test-drilling exercise needs to be undertaken on a timely basis and the findings widely disseminated. There is limited scope for departments to address issues and respond to conclusions if this information is not available on a timely basis and disseminated to the appropriate audience for consideration and action.
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Key Recommendations



Key Recommendations

Skills transfer is essential in addressing departments' future reliance on external consultants and securing better value for money.

We recommend that business cases should always give explicit consideration to the transfer of skills. Where the transfer of skills is not considered to be appropriate this should be explained in the business case.

Departments must do more to ensure that business cases are being undertaken, as required by the guidance, and that they are of appropriate quality. We recommend that Internal Audit units should develop a risk-based programme of compliance testing, the results of which should be provided to both Departmental Boards and Audit Committees.

Around 1 in 5 of the contracts we reviewed were single tender actions. Single tender actions should be the exception. We recommend that, where they are undertaken, the rationale for proceeding should be clearly documented in all cases and must be approved by the Accounting Officer.

It is a matter of concern that more than 50 per cent of contracts not procured through Centres of Procurement Expertise (CoPEs) were Single Tender Actions. We recommend that all external consultancy contracts over £10,000 should be procured through Central Procurement Directorate or another relevant CoPE.

The scale of cost overruns in a number of high profile external consultancy contracts is of concern. We recommend that contracts should only be extended when provision has been made for this in the terms and conditions of the original contract and complies fully with EU regulations. Senior Responsible Owners should report all

proposed contract extensions and overruns to the Departmental Board or Audit Committee.

The increase in the number of external consultancy projects subjected to Post-Project Evaluation (PPE) is welcome, but must be sustained. We recommend that all PPEs are completed within a specified time after the completion of the external consultancy assignment. PPEs need to be open and honest about the quality of consultants' performance and the information should be shared throughout the department and be made available at a wider NICS level to ensure lessons are learnt. This management information should help to inform future procurement exercises.

DFP gave a commitment to the Public Accounts Committee that comprehensive and accurate data on all consultancy expenditure would be available at the touch of a button through the AccountNI system. This is not happening and we recommend that this is addressed as a matter of urgency.

DFP recognises that there is a need to further clarify the guidance on the different categories of professional services. We recommend that this should then be reflected in the Account NI coding system to ensure that separate codes exist for these categories of professional services to enable more accurate and consistent reporting of expenditure.

It is important that any lessons in the Annual Compliance Report are disseminated to the appropriate officials within each department on a timely basis. We recommend that Departmental Accounting Officers ensure that the information provided to DFP in the Annual Consultancy returns is accurate and complete and provided on a timely basis. We recommend that DFP ensures

that annual consultancy returns are commissioned promptly and that test drilling is undertaken upon receipt of this information. And we recommend that, upon publication, the Annual Compliance report is provided to Accounting Officers for dissemination to Departmental Audit Committees, Consultancy Co-ordinators and Heads of Division.

Part One: Introduction



This part of the report outlines:

- Recent trends and patterns of external consultancy expenditure by Northern Ireland departments;
- Our reasons for undertaking a study on the use of consultants; and
- The scope of our study and the methods used to gather evidence.

Introduction

Departments' use of external consultants has in the past been subject to criticism from the Public Accounts Committee

1.1 Northern Ireland Government departments purchase professional services from a wide range of organisations in areas such as management consultancy, financial services and information services. These can be sub-divided into two broad categories:

- **External consultancy services** which are professional services provided for a limited period of time to carry out a specific, finite or "one-off" tasks or projects; and
- **Managed services** where professional services are used in a "business as usual" environment. Managed services incorporate staff substitution and contracted services.

1.2 The Department of Finance of Personnel (DFP) issued revised guidance on the use of external consultants in March 2009¹. The purpose of the revised guidance was to assist departments in identifying when professional services should be classified as external consultancy and to lay out the lower level of delegation which applied to this type of expenditure. While there is no specific detailed guidance on other categories of professional services such as managed services the normal rules as set out in Managing Public Money NI, NI Guide to Expenditure Appraisal and Evaluation and Procurement Guidance Notes apply.

1.3 Consultancy advice and support can be beneficial to departments particularly where:

- there is a lack of internal capacity to undertake new work;
- an independent view or opinion is required; or
- specialist or expert advice is required and is not available internally.

1.4 Similar types of external consultancy services are purchased by all departments and in most areas there are large numbers of suppliers. It is therefore important that departments ensure value for money by following good practice procurement guidance. This includes establishing that there is a clear need to use consultants, awarding contracts competitively, evaluating supplier performance, sharing information and avoiding duplication of activity.

1.5 In June 2004, the Northern Ireland Audit Office (NIAO) published a report² that examined the use of external consultants by NI departments. We found that departments were failing to comply fully with DFP guidance and good practice. We concluded that there was considerable scope for government departments to improve their procurement and management of external consultancy services.

1.6 Our report was the subject of a Public Accounts Committee (PAC) hearing in November 2007 and

1 Guidance on the Use of External Consultants :FD(DFP)04/09

2 Use of Consultants by Northern Ireland Departments: Northern Ireland Audit Office: 10 June 2004

the PAC subsequently produced its own report in February 2008³. This identified a number of key issues and outlined recommendations for improvement (Appendix 1 lists the PAC recommendations and DFP's response to the recommendations). In particular, PAC reported that:

- the cost of external consultancy to Northern Ireland Civil Service departments had almost doubled in 5 years and looked like it was out of control;
- there was little evidence to suggest that there was any strategic planning in the management of external consultancy expenditure or collaboration between departments to identify cost savings and share lessons learnt;
- external consultancy projects were not being effectively designed to ensure that skills were transferred from consultants to in-house staff;
- in a significant number of cases departments were not undertaking business cases, were not tendering competitively and were not conducting post project evaluations;
- a significant percentage of contracts had encountered extensions and/or cost overruns; and
- departments were unable to provide comprehensive and consistent information on external

consultancy expenditure in response to Parliamentary and Assembly questions.

- 1.7 In response to the PAC report, DFP implemented a number of actions to improve the use of external consultants by Departments. New guidance was issued in 2009⁴ to clarify issues around the engagement of external consultants and recording and reporting the expenditure. DFP also reintroduced the annual compliance report to review the engagement of external consultants across all departments and circulate the findings so that best practice can be shared (full details of the actions taken by DFP in response to the PAC are provided at Appendix 2).

External consultancy spend remains significant, totalling £144 million in the 5 year period from 2005-06 to 2009-10 but has fallen considerably over the last 3 years

- 1.8 Aggregate spending on external consultants by NI departments continues to be significant. Over the period 2005-06 to 2009-10, departments including agencies, non-departmental public bodies and health trusts, have spent £144 million on external consultancy services. Expenditure peaked in 2006-07 at £42 million but has subsequently fallen to £19.46 million in 2009-10. Furthermore, for the budget period 2011-2012 to 2013-2014, the Executive has agreed a target of year-on-year reductions of 10% for consultancy spend, and all proposed consultancy spend of £10,000 or more

3 Report on the Use of Consultants: Public Accounts Committee: 10 January 2008: 16/07/08R

4 Guidance on the Use of External Consultants: FD (DFP) 04/09

Introduction

would require specific approval from the relevant departmental Minister.

- 1.9 The proportion of external consultancy expenditure accounted for by individual departments has fluctuated year-on-year. Over the last 5 years three departments (Department for Regional Development, Office of the First Minister and Deputy First Minister and DFP) have accounted for almost half (49 per cent) of total external consultancy expenditure.
- 1.10 A small number of large individual external consultancy contracts can account for a significant percentage of spend. For example:

Figure 2: Departmental share of external consultancy expenditure by department 2005-06 to 2009-10

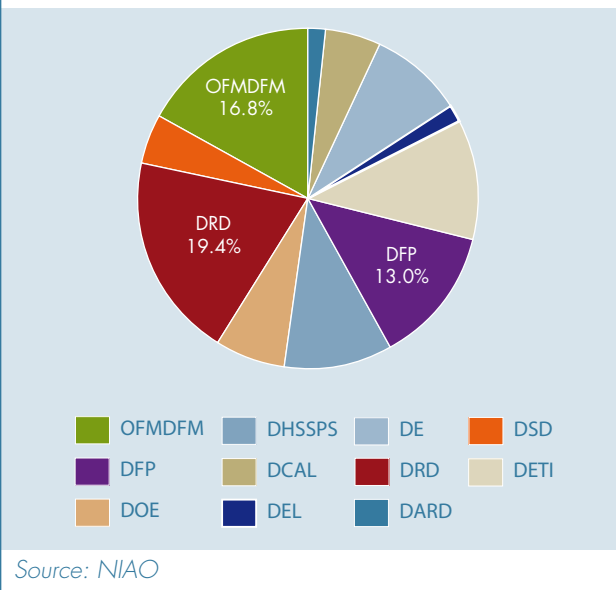
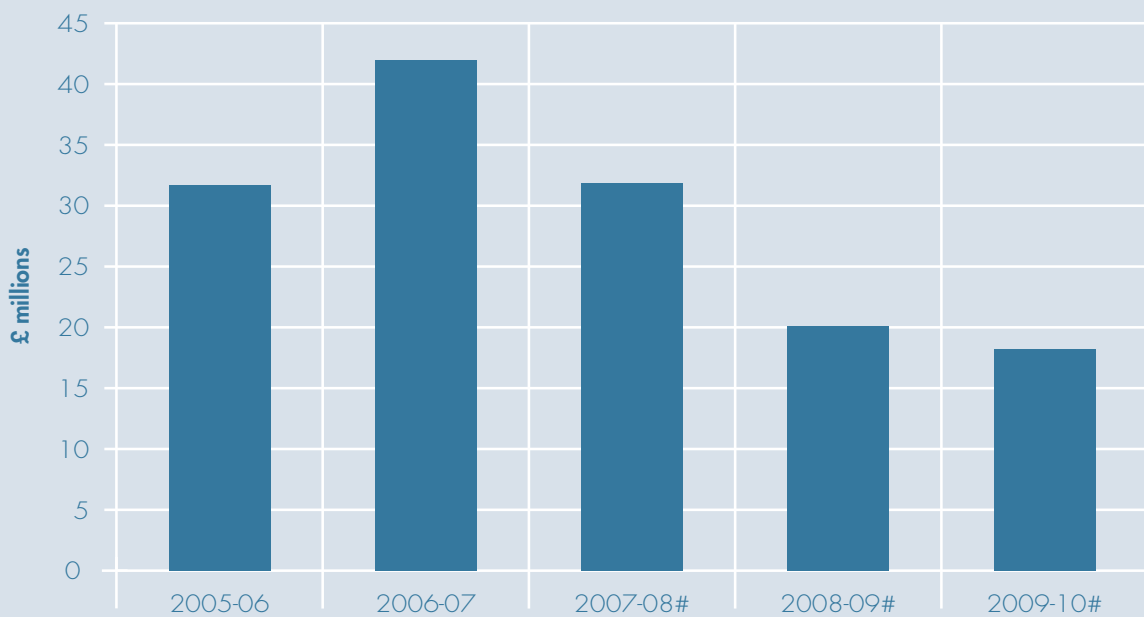


Figure 1: Annual external consultancy expenditure 2005-06 to 2009-10



Figures for the period 2007-08 to 2009-10 exclude external consultancy expenditure incurred by Northern Ireland Water and Northern Ireland Authority for Utility Regulation to enable comparison with 2005-06 and 2006-07 figures.

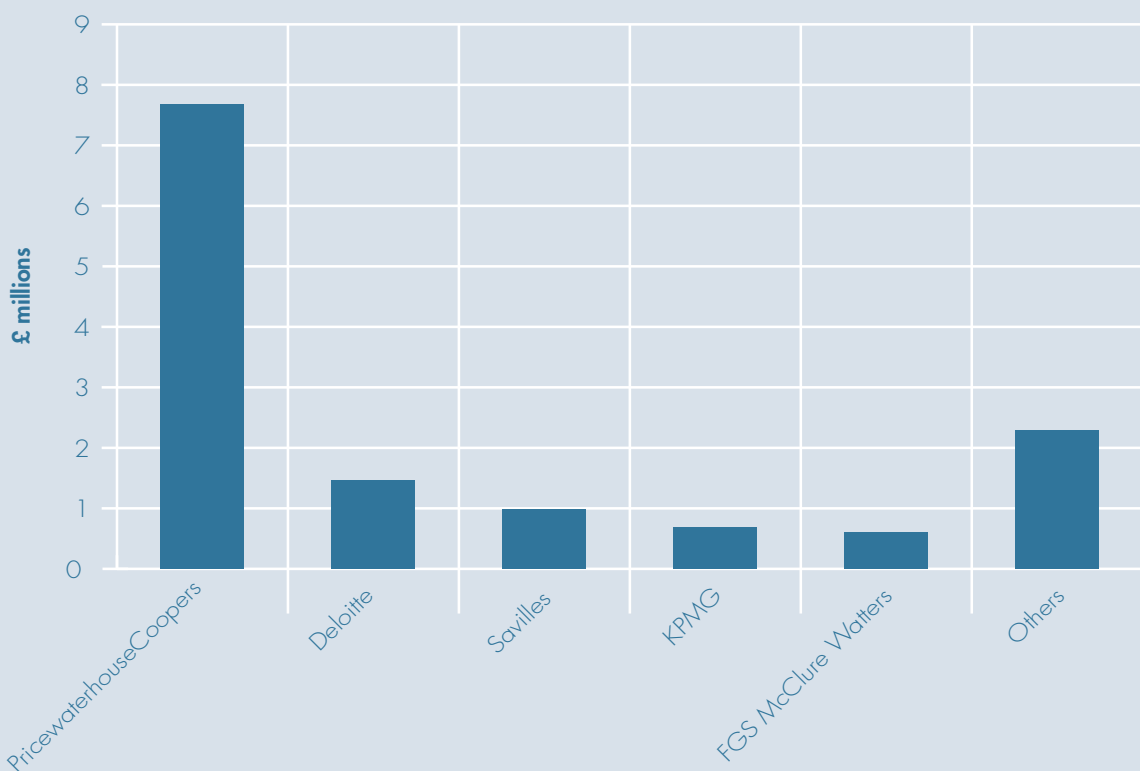
Source: NIAO (2005-06 and 2006-07 data obtained from 2008 PAC Report on Use of Consultants)

- of the £6.3 million expenditure incurred by DFP in 2007-08 £2.9 million (46 per cent) related to fees paid in respect of the Account NI project to implement a shared finance service for all of Northern Ireland Civil Service (NICS) and a further £2.2 million (35 per cent) related to the procurement phase of the Workplace 2010 project, another project undertaken on behalf of the wider NICS;
- In OFMDFM £1.7 million (25.3 per cent) of its total £6.7 million 2007-

08 in-year expenditure related to the development of a masterplan for the regeneration of the Maze/Long Kesh site.

1.11 Value for money is best assured when there is a competitive market place with large numbers of suppliers and market share is not dominated by 1 or 2 large providers. During 2008-09 £13.71 million of in-year expenditure was incurred on contracts awarded to the top ten providers of external consultancy (this equated to 68 per cent of the total in year expenditure on external consultancy).

Figure 3: In-year expenditure incurred on contracts awarded to top ten providers of external consultancy in 2008-09



Source: NIAO

Introduction

Five consultancy organisations, PricewaterhouseCoopers, Deloitte, KPMG, Mott MacDonald and Denton Wilde Sapte, were on the list of top ten providers of external consultancy services in both 2007-08 and 2008-09.

This is a follow-up report, examining the extent to which departments are following good practice

1.12 This follow up study examines the extent to which the level of compliance with DFP guidance and good practice has improved since we first reported in June 2004. Our examination covers:

- the quality of procurement processes within NI departments and whether these complied with DFP's guidance and good practice (Part 2); and
- the quality, consistency and comprehensiveness of information on external consultancy expenditure (Part 3).

1.13 In undertaking our study we:

- sampled 100 consultancy projects over 2007-08 and 2008-09 and tested their compliance with DFP guidance and recognised good practice;
- interviewed departmental consultancy co-ordinators;
- reviewed DFP guidance on the use of external consultants;

- analysed expenditure data provided by departments on their external consultancy spend; and
- undertook a literature review of a number of sources (including reports and guidance from the Westminster and NI Assembly PACs, the National Audit Office and the Office of Government Commerce) to identify good practice in this area.

Appendix 3 outlines our methodology and Appendix 4 details our sample selection.

Part Two: Compliance with DFP Guidance and Good Practice



This part of our report assesses the extent to which departments are:

- establishing a clear need for, and producing the required business case to support, their use of consultants;
- following appropriate tendering procedures and using competition to ensure the achievement of value for money;
- establishing adequate project control arrangements; and
- undertaking post project evaluations of consultants' performance in order to inform future practice.

Part Two: Compliance with DFP Guidance and Good Practice

Key Findings:

- Departments have demonstrated a significant improvement in their level of compliance with DFP guidance on the use of consultants. In particular there is greater compliance in the preparation of business cases, adherence to competitive tendering arrangements and completion of post project evaluations.
- However, we noted a number of key areas where further substantial improvements are required in order to ensure that Departments can demonstrate that external consultancy engagements represent value for money:
 - 39.5 per cent of contracts reviewed encountered cost overruns;
 - A substantial number of business cases did not comply with DFP guidance in terms of content and were not proportional to the assignment being undertaken;
 - 16 contracts valued at £899,000 had not been competitively tendered; and
 - The results of post project evaluations are not being disseminated throughout departments or to the wider NICS.

Overall, there has been a significant improvement in compliance with good practice

2.1 The overall level of compliance with DFP guidance and good practice has improved significantly since our June 2004 Report (Figure 4). There is a substantial increase in the proportion of contracts completing business cases and post project evaluations and a reduction in the extent of single tender action.

2.2 Nevertheless, there remains room for improvement as the sample indicated:

- around 1 in 5 external consultancy contracts are still not being tendered competitively, making it difficult to

demonstrate that value for money has been achieved; and

- the incidence of cost overruns⁵ has remained high, indicating that projects need to be better scoped and managed.

More business cases are being undertaken, but there remains room for improvement

2.3 Before engaging external consultants, departments must ensure that their use is necessary and represents value for money. A full, but proportionate, business case should be completed for all external consultancy contracts. The 2008 PAC report highlighted the importance of

⁵ For the purposes of this report a project is considered to have incurred a cost overrun if actual expenditure exceeded the price agreed in the terms and conditions of the original contract.

Figure 4: The extent of departments' non-compliance with Good Practice

Source: NIAO

departments establishing a clear business need, reviewing options for meeting that need and quantifying the costs and benefits associated with the options identified.

- 2.4 In our June 2004 report, we noted that, in almost three quarters of cases, departments failed to produce business cases. In our current review, we noted a significant and welcome improvement in the level of compliance. Nevertheless, there were still 12 per cent of contracts accounting for £643,618 of in-year expenditure for which no business case had been prepared. A small number of these cases were of high value and it is a matter of concern that departments can enter into significant external consultancy contracts without undertaking this basic

requirement. For example, OFMDFM engaged consultants through DFP's Centre for Applied Learning (CAL) training contract for the provision of a sustainable development training programme valued at £143,394. The department was unable to provide evidence that a business case had been prepared for this project.

- 2.5 Where business cases are required, it is important they are prepared in a considered manner and are not simply a 'tick box' exercise to satisfy the requirements of the guidance. All business cases should set out in detail proportionate to the proposed assignment:

- the purpose of the assignment;

Part Two: Compliance with DFP Guidance and Good Practice

- alternatives to external consultancy, and justification for using external consultants;
- outputs and benefits expected from the external consultancy service;
- proposed project management arrangements;
- the means by which skills/expertise will be transferred to in-house staff;
- the proposed division of work between the external consultant and

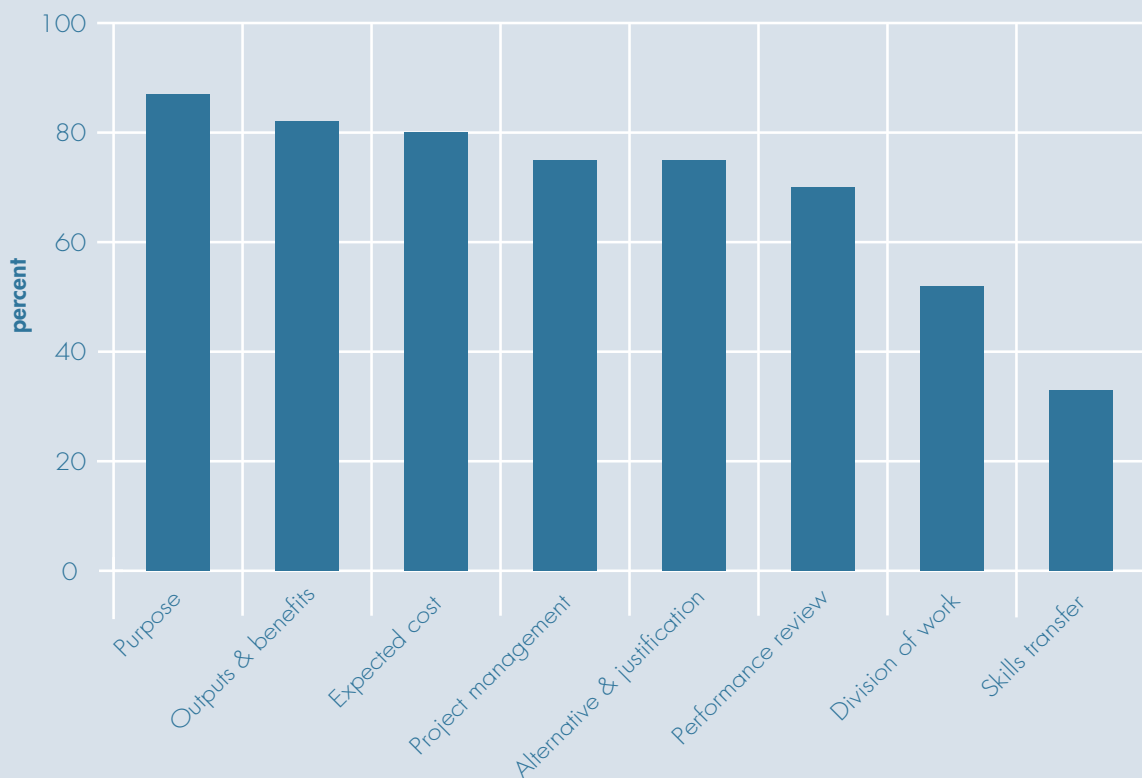
any in-house staff who will be assisting them;

- expected costs; and
- performance review arrangements.

2.6

A substantial number of the business cases we reviewed were not sufficiently proportionate to the scale of the assignment being undertaken and failed to comply fully with the guidance. For example, we found weaknesses in terms of failure to estimate costs, identify benefits or establish performance review arrangements (Figure 5).

Figure 5: Level of compliance with guidance on the content of business cases



Source: NIAO

CASE STUDY A – PROPORTIONALITY OF BUSINESS CASE

Department of Finance and Personnel (DFP)– Grade 7 Competition

The DFP produced a business case to support the engagement of external consultants to design assessment tools for use in the NICS/Northern Ireland Office staff promotion process. The business case was prepared in the format of a memo and, in our opinion, was not proportionate to the cost of the project which was estimated to be up to £250,000. The content was very brief, approximately 1.5 pages, and did not meet the DFP guidelines. In particular, there was limited or no reference to:

- Justification for employing external consultants;
- Alternatives available;
- Outputs and benefits;
- Project management arrangements;
- Skills transfer; and
- Performance review arrangements.

DFP's view was that many of these issues were not relevant to this particular project because, by its nature, it required an independent resource, outside of the wider NICS, and therefore issues such as consideration of other alternatives and hence the justification for using external consultants as well as skills transfer were not relevant. The business case was approved and a contract valued at £31,000 was awarded to Pearn Kandola for this work.

Recommendation 1

Departments must do more to ensure that business cases are being undertaken as required by the guidance and that they are of appropriate quality. Internal Audit units should develop a risk-based programme of compliance testing, the results of which should be provided to both Departmental Boards and Audit Committees. Accounting Officers should ensure that Senior Responsible Officers are held to account in cases where they fail to adhere to the guidance.

over the relevant delegated limits in accordance with DFP guidance. Each separate engagement of external consultants expected to exceed the relevant delegated limits must have Ministerial and DFP approval before a contract is awarded. In 17 per cent of the contracts we sampled, departments were unable to provide any documentary evidence to confirm that business cases had been approved at the relevant delegated limits. A further 9 per cent of contracts reviewed had been granted DFP approval retrospectively.

2.7 Departments are required to seek approval of business cases for projects

2.8 In the 2008 PAC Report, the Committee stated that it was amazed to find that

Part Two: Compliance with DFP Guidance and Good Practice

Figure 6: Department of Education Projects incurring irregular expenditure 2009-10

Name of project	Irregular expenditure incurred £
Derry Dioceses Public Private Partnership (PPP)	613,879
Down and Connor DE La Salle PPP	832,841
Lagan/Tor Bank PPP	389,751
Holy Cross College Strabane PPP	98,958
Classroom 2000	60,748
Northern Ireland School Modernisation Programme	
- Legal advisors	8,178
- Legal costs	76,967
- Procurement mechanism	1,853
TOTAL	2,083,175

Source: NIAO

departments can breach delegated limits yet avoid sanction if they receive retrospective approval from DFP. DFP has now revised procedures in response to the 2008 PAC recommendation and as a result there has been a reduction in the number of retrospective approvals granted. As a result, NIAO has qualified five Departmental Resource Accounts⁶ over the past three years on the basis of external consultancy contracts that were refused retrospective approval by DFP. For example, in 2009-10 the Department of

Education incurred irregular expenditure totalling £2,083,175 in respect of external consultancy fees on six projects which specifically required the approval of DFP (figure 6). We welcome the tougher line that DFP has taken recently as we consider that it will help to ensure tighter controls over expenditure.

2.9 DFP's delegated expenditure approval limits do not apply to external consultancy expenditure incurred by the Strategic Investment Board (SIB). OFMDFM and

⁶ In 2009-10 NIAO qualified the Department of Education Resource Accounts on the basis that irregular expenditure totalling £2,083,175 had been incurred in respect of external consultancy fees on six projects which specifically required the approval of DFP (figure 6).

In 2008-09 the Department for Employment and Learning Resource Accounts were qualified as a result of irregular expenditure incurred in respect of funding provided to two Further Education Colleges for advisory fees on Public Private Partnerships.

In 2008-09 the Department of Health, Social Services and Public Safety Resource Accounts were qualified on the basis that The Northern Ireland Blood Transfusion Service incurred expenditure of £130,000 on consultancy between June and December 2008. DFP refused to give retrospective approval because a suitable business case had not been completed and approved prior to engaging the services of the consultants.

In 2007-08 the Department for Social Development Resource Accounts were qualified on the basis that it failed to obtain approval from DFP for expenditure on five projects.

In 2007-08 the Department for Health, Social Services and Public Safety Resource Accounts were qualified on the basis that £2.4 million of expenditure was incurred by the former Sperrin Lakeland Health and Social Services Trust on specialist advisors for the Developing Better Services project prior to seeking formal approval from DFP. DFP turned down the request for retrospective approval.

DFP allocate two annual consultancy budgets to SIB: an 'Enabling Budget' that is used to co-sponsor projects, and a 'Consultancy Budget' which is used to supplement SIB's own resources. Once SIB's annual budget has been approved by OFMDFM and DFP, there is no requirement for SIB to seek further approval from OFMDFM or any other department for individual consultancies or contracts awarded under these budgets. SIB seeks Ministerial approval for all expenditure within these budgets on an annual basis to negate the necessity of seeking Ministerial approval for any individual contract valued at over £50,000. The rationale for this approach is that many of the advisorships on large contracts will exceed the £50,000 limit and it is felt that it would impede SIB's ability to perform its mandate to accelerate infrastructure procurement if it had to await individual approvals on a contract by contract basis.

- 2.10 SIB advised us that its advisers prepare business cases for all proposed expenditure from the 'enabling budget' and these are considered by SIB's Investment Committee. An official from OFMDFM attends the Investment Committee meetings as an observer and OFMDFM immediately reports to Ministers details of all individual expenditure over £75,000.

More needs to be done to transfer external consultancy skills to in-house staff

- 2.11 One of the key reasons for using external consultants is where specialist skills and expertise are not available in-house. Therefore, where appropriate, the use of external consultancy support presents an opportunity for departments to develop their own internal staff. This should assist departments in building up their own internal expertise for use on similar assignments in the future.
- 2.12 The 2008 PAC Report expressed concern that departments did not appear to be building an efficient, well-skilled Civil Service and that internal staff were in danger of being left behind. The Committee highlighted the need for external consultancy projects to be designed to ensure the transfer of skills where appropriate from consultants to in-house staff. However, only 33 per cent of the business cases we reviewed made reference to the transfer of skills. Around two-thirds of external consultancy contracts were let without any documented evidence of whether opportunities for skills transfer existed or could be put in place.
- 2.13 DFP has advised that the revised guidance on Use of Consultants⁷ makes it clear that departments should assess the potential for external consultants to transfer knowledge and skills to the public sector staff to the greatest extent possible, thereby reducing the future need to engage external consultants. DFP has also undertaken work to identify and fill skills gap in the NICS and has continued to develop the capacity

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and capability of Business Consultancy Service, the consultancy group within the Department's Information Strategy and Innovation Division.

Recommendation 2

Skills transfer is essential in addressing departments' future reliance on external consultants and securing better value for money. Business cases should always give explicit consideration to the transfer of skills. Where appropriate, measures for transferring skills should be incorporated into the overall management arrangements and agreed with the external consultant at the start of the assignment. This would then form the basis for regular review throughout the contract life cycle. Where the transfer of skills is not considered to be appropriate this should be explained in the business case.

Around 1 in 5 contracts was not competitively tendered

2.14 Competitive tendering offers departments the best means of ensuring that they achieve value for money in the procurement of external consultancy services and helps demonstrate propriety in the use of public funds. As outlined in Procurement Guidance Note 02/10⁸, we recognise that there may be certain circumstances where single tender actions may be appropriate and provision exists in these circumstances for Accounting Officers to approve this decision. Our June 2004 report noted that 41 per cent of contracts sampled had been awarded using single tender actions. In our current review, we found that 19 per cent of contracts we sampled were single tender actions and not, therefore, subject to competitive procurement. The value of these contracts was approximately

Figure 7: Single Tender Actions

Department	No of contracts	Contract Value	Expenditure in year
Department of Culture, Arts and Leisure	1	50,000	24,150
Department of Education	3	89,871	89,871
Department for Employment and Learning	2	53,953	47,707
Department of Finance and Personnel	4	531,845	199,947
Department of Health, Social Services and Public Safety	2	34,172	35,772
Department of the Environment	3	123,366	25,242
Department for Regional Development	1	16,000	15,899
TOTAL	16	899,207	438,588

Source: NIAO

£899,000 (Figure 7). Single tender action had been approved by the Accounting Officer in 10 of the 16 cases.

Almost a third of external consultancy contracts were awarded without the input of a Centre of Procurement Expertise

Recommendation 3

Around 1 in 5 of the contracts we reviewed were single tender actions. Single tender actions should be the exception. Where they are undertaken the rationale for proceeding should be clearly documented in all cases and, as recommended by the 2008 PAC report and DFP's Procurement Guidance Note 02/10, all single tender actions must be approved by the Accounting Officer as he/she will be expected to defend the decision if called before the Committee.

2.15 The use of procurement professionals should improve the means by which departments purchase external consultancy services. A number of Centres for Procurement Expertise (CoPEs) have been established throughout the NICS, the main one being DFP's Central Procurement Directorate. There have been concerns about several CoPEs because of high profile failings in NI Water, Translink and the Education and Library Boards. DFP guidance emphasises that all procurement for external consultancy services should be

CASE STUDY B – SINGLE TENDER ACTION

Department of Education – Benchmarking for Pathfinders

The Northern Ireland Public Private Partnership Education Service (NIPPPEs) was established by the Department of Education to support PPP projects through the appointment of project managers.

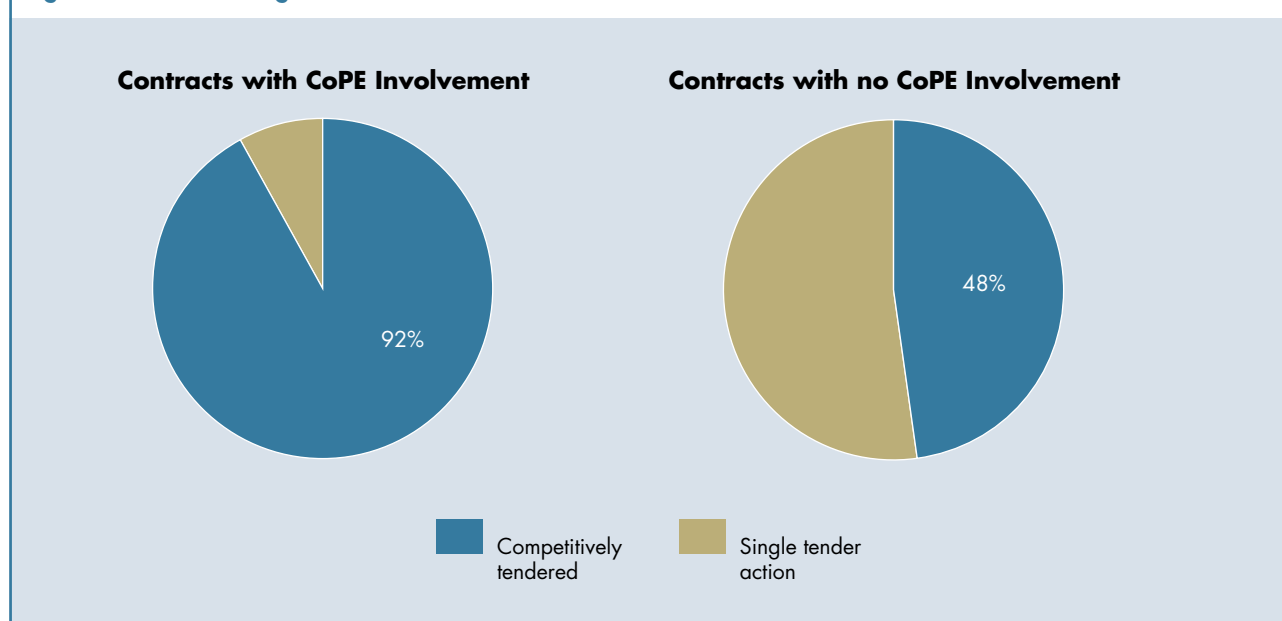
In April 2006 NIPPPEs identified a need for external consultancy support to establish a Pathfinders' benchmarking database. The Department provided approval for the appointment of consultants on 14 November 2006 but indicated that NIPPPEs should use the select tender approach for the appointment. On 17 November 2006 NIPPPEs invited KPMG to submit a cost for the work required. No other external consultancy providers were invited to tender for the work. The Department provided NIPPPEs with approval to proceed on the basis of single tender action on the same date however, no Accounting Officer approval was obtained as required by the guidance.

We asked NIPPPEs to provide an explanation for proceeding with this course of action despite the advice given by the Department and they advised us that the Terms of Reference for this assignment required that the external consultancy provider has experience of carrying out a benchmarking exercise for other organisations within the education sector in Northern Ireland. Based on their past experience, NIPPPEs concluded that KPMG was the only external consultancy provider with the necessary experience.

KPMG subcontracted part of the work to EC Harris. The total final cost of the project was £22,451 plus expenses.

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Figure 8: Extent of single tenders and the use of CoPEs



managed by a CoPE and the 2008 PAC Report also strongly advocated the use of CoPEs, recommending that all contracts be negotiated through them.

- 2.16 71 per cent of the contracts we reviewed had been procured using the services of a CoPE. Generally we found that the procurement of these contracts had observed relevant guidelines and that there was a clear audit trail documenting both the competitive tendering process undertaken and the outcome of that process. 52 per cent of contracts that were awarded without any CoPE involvement had not been competitively tendered compared with only 8 per cent of those that had CoPE involvement (Figure 8).

Recommendation 4

It is a matter of concern that more than 50 per cent of contracts not procured through CoPEs were single tender actions. There is clearly less likelihood of single tender actions if CoPEs are used to procure external consultancy services. All external consultancy contracts over £10,000 should therefore be procured through Central Procurement Directorate or another relevant CoPE.

A small number of contracts have experienced significant cost overruns

- 2.17 Project overruns can occur for a variety of reasons including poor scoping, appraisal, management or control of consultants and can impact significantly on the total final cost of projects and on the delivery of outputs. Departments

Figure 9

Department	Contract	Original Value (£)	Overrun (£)
Department of Finance and Personnel	Account NI	971,700	8,550,000
Department for Regional Development	Roads Service –PPP advice ⁹	3,000,000	3,780,000
Office of First and Deputy First Minister	Regeneration of Maze/Long Kesh ¹⁰	1,346,675	343,325
Office of First and Deputy First Minister & Department of Education ¹¹	BELB/DE/SIB – Technical, legal and financial advice for the procurement of schools	855,138	1,944,662
Total		£6,801,743	£14,617,987

Source: NIAO

therefore must ensure they have in place appropriate project management arrangements. Regular monitoring of progress against agreed milestones at a senior level is necessary to help departments minimise the incidence of project overruns.

- 2.18 Our June 2004 report indicated that 45 per cent of the contracts reviewed had incurred final payments that exceeded the original contract price. As a result, we recommended that departments should pro-actively manage external consultancy assignments by establishing a project board, designating a project manager and agreeing interim milestones commensurate with the scale of expenditure involved. Our current review confirmed that these measures had to a large extent been implemented. 94 per

cent of all contracts had a designated project manager and interim milestones had been agreed and monitored in 73 per cent of contracts evaluated. However, despite the improvement in project management, the incidence of contract overruns remained high (39.5 per cent of our sample), with these contracts encountering cost overruns totalling over £15 million. £14.6 million of the overspend was incurred on four contracts (Figure 9).

- 2.19 Part 3 of The Public Contracts Regulations 2006¹² outlines the procedures leading to the award of a public contract. It highlights circumstances under which a negotiated procedure may be used by contracting authorities to engage economic operators to provide additional works or services not included in the

⁹ The original contract price of this project was £3,000,000. At the time of our review, the maximum ceiling for fees for all PPP Advisory Commissions totalled £6,780,000. This has been approved by DFP, but not all spent.

¹⁰ Overrun is calculated on the basis of a estimated final cost supplied by OFMDFM.

¹¹ This project was selected from the OFMDFM annual consultancy return for 2007/08, however, the project was a joint undertaking between Strategic Investment Board and the Department of Education. The project costs were split 50:50 between SIB and Department of Education (see Case Study D).

¹² The Public Contracts Regulations 2006 came into force in England, Wales and Northern Ireland on 31 January 2006 and implemented Directive 2004/18/EC of the European Parliament and Council of 31 March 2004.

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project initially. However, Regulation 14 states that this negotiated procedure should not be used where the aggregate value of the additional works or services exceeds 50 per cent of the value of the consideration payable under the original contract. Penalties for non compliance with this legislation include suspension of any tender exercise and/or unlimited financial damages. Departments must, therefore, seek assurances that all cost overruns and contract extensions are negotiated in accordance with the regulations.

Recommendation 5

The scale of cost overruns in a number of high profile external consultancy contracts is concerning. A contract should only be extended when provision has been made for this in the terms and conditions of the original contract and complies fully with EU regulations. Senior Responsible Officers should report all proposed contract extensions and overruns to the Departmental Board or Audit Committee.

CASE STUDY C – PROJECT OVERRUN

Department of Finance and Personnel – Account NI

DFP commissioned the services of PricewaterhouseCoopers to provide support on Account NI, a major reform initiative within the NICS. The original contract was competitively tendered and awarded in April 2002 to run for three years on the basis of a proposed cost of £971,700. There were three extensions to the original contract valued at £2.7m, £5.2m and £0.65m respectively running from July 2006 to September 2009. The total final consultancy cost was £9.6m. DFP advised us that, Account NI sought and followed CPD advice and secured the appropriate approvals from the Minister and DFP Supply throughout.

Regulation 14 of the Public Procurement Regulations (2006) limits the extension of any contract to 50 per cent of the original contract value after which the contract must go out to open competition. CPD recognised this requirement and limited the first extension to 50% of the original contract value with the intention to re-tender the contract to cover the remaining period required. CPD, in conjunction with Account NI drafted tender documents and agreed an evaluation model. However, following consideration of emerging case law, it was agreed instead to negotiate with PricewaterhouseCoopers with a view to extending the existing contract.

DFP's rationale for this approach was that since there was no change to the scope of the consultancy contract, it was not therefore a new contract to which the provisions of Regulation 14 would apply. This rationale was supported by legal advice. It was considered that value for money could be secured by negotiating with the external consultancy provider and comparing the rates offered with those quoted for other frameworks let at that time.

DFP advised that extensions to the Account NI contract were managed in line with advice and guidance from Central Procurement Directorate, the Department's Centre of Procurement Expertise, and the Departmental Solicitors Office.

In our view, in order to demonstrate value for money and ensure compliance with procurement regulations and EU legislation DFP should have undertaken separate procurement exercises for each of the contract extensions.

DFP strongly disagrees with the assertion that there was a project overrun on the Account NI contract with PriceWaterhouseCoopers. DFP believes it has demonstrated that the contract was pro-actively managed, in line with relevant procurement procedures and underpinned by guidance from Central Procurement Directorate and the Departmental Solicitor's Office, and that appropriate approvals – Accounting Officer, Ministerial and Supply – were sought. The actual expenditure did not exceed the total contracted value, and DFP is strongly of the view that there were sound governance and control arrangements in place for managing this contract.

It is our view that a contract agreed at an original value of £0.97m which finishes costing £9.6m, more than 4 years after the original completion date, has overrun in terms of cost and time, particularly given that the scope of the project remained unchanged throughout.

CASE STUDY D – PROJECT OVERRUN

Belfast Education and Library Board, Department of Education and Strategic Investment Board - Technical, Legal and Financial Advice for Procurement of Schools

The Belfast Education and Library Board (BELB) in partnership with the Strategic Investment Board (SIB) and Department of Education (DE) engaged external consultants, PricewaterhouseCoopers (PwC) in 2004 to provide lead, technical, legal and financial advice for a schools procurement project. SIB and DE agreed a cost of £855,138 and a target completion date of December 2005 with PwC. The fees were to be funded 50% by DE and 50% by SIB.

However, changes in the scope and detail of the contract, which were initiated by SIB and DE, resulted in a final cost of £2,799,800, more than three times the original tender price with the project delivered three years later than the target date.

In June 2008, after consultation with BELB, DE and Central Procurement Directorate, SIB issued a detailed Post Project Evaluation Report which reviewed the use of consultants on this project and identified the reasons for the overruns. The most significant of these were:

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- The project was subjected to a full Equality Impact Assessment. This resulted in a delay of 15 months due to the challenges raised and as a result DE had to revisit the enrolment numbers for schools;
- Insufficient bidders responded to the initial OJEU notice. In response to feedback the scope of the project was amended and as a result, the OJEU process had to be re-run causing a delay of 4 months; and
- During the course of the project DE changed its predictions for Long Term Enrolments, this resulted in an 8 month delay.
- An unsuccessful legal challenge by a bidder resulted in a 4 month delay.

SIB advised us that, when it became clear that the original schedule could not be met SIB considered whether the consultancy contract should be re-tendered. However, given the urgency to complete the procurement SIB did not consider it desirable to re-tender the consultancy requirement as this would have delayed the project further.

There has been a considerable increase in the numbers of Post Project Evaluations but their quality needs to be improved and they need to be more widely shared

2.20 Post project evaluations (PPEs) provide an opportunity for departments to assess the performance of consultants used, confirm whether value for money was achieved and identify lessons for future engagements. DFP guidance requires departments to complete PPEs and, where appropriate, share lessons with relevant colleagues, their CoPE and with other departments across the NICS. In its 2008 report, the PAC described it as indefensible that departments did so little to confirm the achievement of value for money given the enormous sums of money involved in external consultancy expenditure. PAC recommended that evaluations be completed for all external consultancy assignments. In addition, we

note that the DFP Departmental Committee has taken an interest in this area and is monitoring the completion of PPEs on a quarterly basis.

2.21 PPEs had been completed for 69 per cent of the contracts we reviewed. This represents a significant improvement in the level of compliance noted in our 2004 report when only 12 per cent of contracts had a PPE. At the time of our current review, 5 per cent of the projects we reviewed were still in progress and, therefore, no PPE had yet been completed in respect of these contracts.

2.22 PPEs provide a valuable opportunity for departments to identify ways of achieving value for money savings in future contracts. PPEs should therefore provide a forthright assessment of the consultants' performance and the results and lessons learned should be disseminated widely. In

CASE STUDY E – PROJECT OVERRUN

Office of First and Deputy First Minister – Regeneration of Maze/Long Kesh

The Maze/Long Kesh site is the largest publically owned regeneration site in Northern Ireland at 347 acres and is of significant historical interest given that it played a major role in the history of Northern Ireland. In 2005 a Masterplan exercise was undertaken to produce a site regeneration framework. In 2006 the Department of Culture Arts and Leisure and OFMDFM produced a business case outlining the need for an additional £7.4 million of expenditure to take the project forward. The business case was approved by a Good Government Meeting on 3 April 2006 and subsequently by DFP on 7 April 2006. The proposed £7.4 million of expenditure included £2.4 million for a planning application. A contract for this part of the project was awarded to RPS Consulting Engineers at a total price of £1,346,675. The contract with RPS Consulting Engineers was subject to a number of variations in 2007 and a revised contract value of £1,959,670 was approved by the Programme Board. The table below provides a breakdown of the original proposed cost of the project and the revised contract value.

Description	Contract Baseline £	Revised Contract Value
Planning Application	70,525	70,525
Sustainable Development Strategy	54,050	54,050
Environmental Impact Assessment	276,875	276,875
Traffic Assessment	94,725	94,725
Highway studies, design & surveys	362,500	489,892
Utilities Infrastructure studies	83,000	83,000
Additional studies	205,000	0
Contingency for additional work	200,000	0
Agreed cost of additional work		890,603
TOTAL	1,346,675	1,959,670

OFMDFM advised us that £739,442 of the additional costs incurred related to work carried out in respect of an additional planning application that was not included within the original the terms of reference upon which the RPS procurement was based. This requirement was identified as a result of discussions with Planning Service that concluded that outline planning application was required for the whole site. OFMDFM indicated that, due to the interlinked nature of the work required, it was appropriate to extend the original RPS commission. Central Procurement Directorate managed this commission on behalf of OFMDFM and oversaw the negotiation of the additional fee for the work.

OFMDFM estimate that the total final cost of the project will be £1,690,000.

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the 2008 PAC report, PAC recommended that PPEs should be of appropriate quality and highlight facets of the consultants' performance which may be of interest for future assignments.

- 2.23 The quality of the PPEs we reviewed varied greatly and they were not always reflective of the scale of the assignment under review. Generally, the evaluations lacked detail and identified few lessons that could be applied in securing future value for money savings. Of the 59 PPEs we reviewed only 1 noted any negative feedback on the service provided by the external consultancy provider.
- 2.24 We asked departments to confirm how the results of PPEs were used. In the majority of cases it was apparent that the results of the PPEs had been shared within an individual business area but had not been disseminated throughout the department or promulgated to the wider NICS. This curtails the potential impact and value for money savings that may be realised as a result of sharing lessons learned throughout the NICS.

Recommendation 6

The increase in the number of external consultancy projects subjected to PPE is welcome, but must be sustained. Departments must ensure all PPEs are completed within a specified time after the completion of the external consultancy assignment. PPEs need to be open and honest about the quality of consultants' performance and the information should be shared throughout the department and be made available at a wider NICS level to ensure lessons are learnt. This management information should help to inform future procurement exercises.

Part Three:

The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending



This part of our report examines:

- The definition of external consultancy;
- The quality of expenditure information provided by departments;
- The standards of record management; and
- DFP's test-drilling exercise.

Part Three: The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending

Key Findings:

- It is difficult to establish the level of total payments made for consultancy services;
- There are concerns about the accuracy and consistency of expenditure information;
- There were significant delays in receiving basic management information requested from a number of departments and we have concerns about the quality of records management; and
- DFP undertakes a 'test-drilling' exercise to assess compliance with guidance however, this exercise is not completed on a sufficiently timely basis.

It is difficult to establish the total cost of using consultants.

3.1 Consultancy can be difficult to define and distinguishing between external consultancy, staff substitution and contracted out services can be complex. The 2008 PAC report recommended that departments should ensure that they give comprehensive and consistent information on consultancy expenditure in response to requests from elected representatives. In this regard, the Committee indicated that expenditure information put into the public domain must be complete and should clearly delineate all categories of consultancy costs. The PAC requested details of all consultancy expenditure in the NICS for inclusion in its 2008 report and indicated that the figures should include internal consultancy, staff substitution, contracted services and research.¹³ In response to PAC, DFP provided the information as requested. However, DFP

remains of the view that staff substitution, contracted services and research are not considered to be consultancy, but rather are categories/sub categories of external professional services.

3.2 The most recent guidance on the use of consultants¹⁴ provides some advice on how departments should sub-divide professional services expenditure between external consultancy services and managed services. The guidance is quite clear on how public bodies should identify external consultancy contracts and provides comprehensive examples but is less clear on how departments should identify staff substitution and contract services. Departments indicated to us that the guidance did not provide them with sufficiently detailed information to enable them to delineate between the categories of professional services.

13 PAC Report on Use of Consultants – Appendix 3, Chairperson's letter of 19 November 2007. DFP advised that the 04/09 guidance on use of consultants classifies these categories of expenditure as professional services rather than consultancy expenditure.

14 Guidance on the Use of External Consultants: FD(DFP)04/09

3.3 We asked departments to provide a breakdown of expenditure incurred by their core department and its agencies and arms length bodies in 2007-08, 2008-09 and 2009-10 on:

- external consultancy;
- internal consultancy;
- staff substitution;
- contracted out services; and
- research.

Figure 10: Expenditure by departments 2007-08

2007-08					£million	
Dept	External Consultants	Internal Consultants	Staff Substitution	Contract Services	Research	Total
DARD	0.48	0.12	0.49	1.39	0.00	2.48
DCAL	3.89	0.09	0.42	0.42	0.09	4.91
DE	3.28	0.00	2.89	1.29	0.00	7.46
DEL	0.50	0.00	0.21	0.37	0.14	1.22
DETI	2.87	1.21	0.71	7.09	0.17	12.05
DFP	6.30	0.00	2.10	25.40	2.60	36.40
DHSSPS	3.07	1.98	50.30	8.35	0.00	63.70
DoE	2.03	1.89	2.18	4.92	1.61	12.63
DRD	1.96 ¹⁵	0.39	1.62	3.25	0.14	7.36
DSD	0.76	0.00	0.00	11.56	0.13	12.45
OFMDFM	6.70	0.00	0.00	0.05	0.04	6.79
¹⁶ NIAUR	2.11	0.00	0.03	0.46	0.00	2.60
Total	33.95	5.68	60.95	64.55	4.92	170.05

¹⁵ Excludes expenditure by NI Water

¹⁶ Data presented in figure 1 does not include NI Authority for Utility Regulation for comparability 2005-06 and 2006-07 figures.

Part Three: The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending

Figure 11: Expenditure by departments 2008-09

2008-09					£million	
Dept	External Consultants	Internal Consultants	Staff Substitution	Contract Services	Research	Total
DARD	0.49	0.09	0.67	1.95	0.00	3.20
DCAL	0.61	0.09	0.45	0.52	0.21	1.88
DE	1.51	0.00	2.78	1.31	0.00	5.60
DEL	0.58	0.01	0.36	0.41	0.26	1.62
DETI	3.29	1.77	0.73	8.84	0.35	14.98
DFP	4.52	0.00	4.90	18.90	0.80	29.12
DHSSPS	1.65	1.90	61.55	9.76	0.02	74.88
DOE	1.84	1.73	2.79	4.92	1.57	12.85
DRD	0.79 ¹⁷	0.40	1.74	4.23	0.13	7.29
DSD	2.69	0.00	0.00	10.04	0.11	12.84
OFMDFM	2.48	0.36	0.00	0.07	0.05	2.96
NIAUR	1.15	0.00	0.15	0.62	0.00	1.92
Total	21.60	6.35	76.12	61.57	3.50	169.14

¹⁷ Excludes expenditure by NI Water

Figure 12: Expenditure by departments 2009-10

2009-10					£million	
Dept	External Consultants	Internal Consultants	Staff Substitution	Contract Services	Research	Total
DARD	0.44	0.22	0.61	5.29	0.00	6.56
DCAL	0.57	0.10	0.37	5.31	0.28	6.63
DE	0.71	0.00	2.84	1.51	0.00	5.06
DEL	0.31	0.00	0.37	0.44	0.32	1.44
DETI	4.02	1.76	0.81	7.38	0.51	14.48
DFP	1.10	0.00	3.50	19.50	0.40	24.50
DHSSPS	2.80	1.76	56.89	30.75	1.27	93.47
DOE	1.84	1.77	3.90	6.03	1.43	14.97
DRD	0.64 ¹⁸	0.50	1.69	4.05	0.16	7.04
DSD	2.02	0.00	0	14.13	0.00	16.15
OFMDFM	3.75	0.50	0.82	1.41	0.21	6.69
NIAUR	1.26	0.00	0.03	0.41	0.02	1.72
Total	19.46	6.61	71.83	96.21	4.60	198.71

3.4 We note that the expenditure incurred by departments on staff substitution and contracts services covers a diverse range of spend and not just spending on consultants:

- DFP advised us that their reported expenditure on staff substitution, contract services and research reflects total expenditure on temporary staff including recruitment agency and other temporary staff, expenditure on all contract services including contract security, messengers, portering and cleaning. Therefore, these figures include payments made to a large range of service suppliers;
- DHSSPS highlighted that the figures supplied for staff substitution include payments made to temporary agency staff including payments for locum medical services;
- DETI indicated that the vast majority of expenditure on contract services throughout the 3 year period was incurred by Invest NI in relation to its normal business operations such as International sales/trade, communications and marketing; property services and facilities management; and

Part Three: The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending

Figure 13: Northern Ireland Housing Executive – Managed Services Expenditure

Year	NIHE Design & Property	NIHE - Housing Regeneration	NIHE - ICT Services	NIHE - TOTAL
2007/08	£9,441,453	£459,000	£0	£9,900,453
2008/09	£8,021,078	£622,000	£0	£8,643,078
2009/10	£3,573,128	£0	£7,032,798	£10,605,297

- DSD recorded comparatively high levels of expenditure on contract services in each of the 3 years from 2007-08 to 2009-10. The main reason for this expenditure relates to managed services within the Northern Ireland Housing Executive (NIHE), Public Corporation of DSD (Figure 13).

because the Account NI system currently only has a separate coding structure for external consultancy expenditure. Expenditure on other professional services is not easily identifiable from the Account NI coding structure.

3.7

We identified a number of specific inaccuracies in relation to the expenditure data we received and the sample of external consultancy contracts we assessed:

There are concerns about the accuracy and consistency of the expenditure information

- 3.5 Most departments indicated to us that the information we sought on other professional services (including internal consultancy, staff substitution, contract services and research) is not maintained centrally on an ongoing or annual basis and that a one off exercise had to be undertaken to satisfy our request. Only one department indicated that they analysed this information and reported results to their Board regularly. It is concerning that this basic management information is not readily available.
- 3.6 In order to collate this information departments had to commission returns from individual business areas. They explained that this was necessary

- Three departments failed to supply external consultancy expenditure figures for 2007-08 that were consistent with the figures provided to DFP for publication in its annual compliance report;
- One department provided inconsistent information relating to 2008-09; and
- Out of our sample of 100 contracts we found that 13 contracts had been incorrectly recorded as external consultancy assignments, accounting for a total value of £1,530,574. These contracts should have been classified as either staff substitution or contracted out services.

3.8 Despite the concerns raised by PAC regarding the consistency of information provided by departments on this topic, it is clear that some departments still have difficulty providing accurate basic management information. In addition, there continues to be confusion over the classification of the expenditure, although professional services categories are currently in line with Office of Government Commerce guidance.

Recommendation 7

DFP gave a commitment to the PAC that comprehensive and accurate data on all consultancy expenditure would be available at the touch of a button through the Account NI system. This is not happening and must be addressed as a matter of urgency. DFP should further clarify the guidance on the different categories of professional services. This should then be reflected in the Account NI coding system to ensure that separate codes exist for these categories of professional services to enable more accurate and consistent reporting of expenditure. DFP recognises there is a need to further clarify issues around definitions, classifications, recording and reporting and is currently reviewing the implementation of the new guidance with a view to clarifying these areas.

We have concerns about the quality of records management

3.9 External consultancy expenditure tends to come under greater scrutiny than other areas of public spending. This

has been highlighted by the recent PAC investigation into the procurement issues within NI Water where some of the failings related specifically to external consultancy services. It is essential therefore, that departments retain an audit trail of all key documentation relating to individual external consultancy assignments. This includes:

- business cases and approvals;
- tendering documentation;
- signed contracts;
- project planning and performance management information; and
- post project evaluations.

3.10 These are key documents which departments should be able to provide promptly if required to do so. We were surprised, therefore, at the significant delays we encountered in receiving the information that we had requested from some departments. In some cases, we encountered delays of up to four months in receiving information relating to individual contracts. A number of departments including OFMDFM and DCAL provided a substantial amount of additional information during the clearance process that had previously been unavailable during our audit fieldwork.

3.11 Where information was unavailable we asked departments to comment. In a number of cases departments were unable to provide any explanation. However,

Part Three: The Quality, Consistency and Comprehensiveness of Information on External Consultancy Spending

in some cases, TRIM was identified as a causal factor. TRIM is an electronic records management system designed to help businesses capture, manage, and secure business information in order to meet governance and regulatory compliance obligations.

3.12 TRIM was rolled out to NICS departments in 2007 as part of a record management project known as Records NI. Departments explained that, when TRIM was implemented it was no longer considered necessary to retain manual copies of electronically produced documentation. However, as with any change initiative it takes time to become embedded and initially departmental staff were not always fully proficient in using TRIM. As a result, on occasion, departments may have overlooked saving documents electronically or failed to operate the system correctly. This potentially impacted on their ability to provide copies of documentation produced during the transition to TRIM. Departments assured us that that this was no longer an issue as TRIM is now fully operational and has been well embedded throughout NICS.

3.13 The PAC, as part of its report on Shared Services for Efficiency – a Progress Report¹⁹ emphasised that “the new processes and practices introduced by Records NI must not compromise the maintenance of Northern Ireland’s public record and the ability of the C&AG to carry out his functions in providing the necessary assurance to the Committee on departments’ use of resources.” In

response, DFP assured the Committee that it was satisfied that the integrity of the public record was not diminished and that C&AG’s access rights had been circulated to, and understood by, all departments²⁰.

Recommendation 8

It is important the quality of records management is not reduced because of the move from a paper-based to an electronic system (TRIM). Departments should conduct a review of the system to test the accessibility, availability and quality of records within TRIM.

DFP undertakes a ‘test-drilling’ exercise to assess compliance with guidance. This exercise is not completed on a sufficiently timely basis to disseminate lessons

3.14 It is the responsibility of each Accounting Officer to ensure that the department is following best practice when engaging external consultants and that information on external consultancy expenditure is comprehensive and accurate. DFP also has a central role relating to the recording of external consultancy expenditure including:

- commissioning annual external consultancy returns from departments and managing an external consultancy database;
- approving projects above delegated limits;

19 Report on Shared Services for Efficiency – a Progress Report, Public Accounts Committee, 15 January 2008, 21/08/09R

20 DFP Memorandum on the fifth and sixth Reports from the Public Accounts Committee Session 2008-09, 13 March 2009, NIA 91/08/09

- conducting test-drilling of projects below delegated limits; and
- producing an annual compliance report.

3.15 At the start of each financial year departments produce annual external consultancy plans. The plans identify any known or expected external consultancy assignments that have been identified for that financial year. The guidance suggests that this information should be made available to DFP Supply, Central Procurement Directorate, other relevant CoPEs and Business Consultancy Service. DFP Supply confirmed that it does receive annual external consultancy plans from departments but indicated that their use of these plans was limited.

3.16 In our 2004 report, we noted that while DFP was maintaining details of external consultancy expenditure across the NICS, the information that it collated at that time was variable and limited in nature. We recommended that DFP's monitoring and audit responsibilities should be reviewed and clearly defined, and that the data held by DFP should be enhanced to improve the level of assurance available to DFP.

3.17 In response to our recommendation DFP incorporated additional fields into the external consultancy returns. Returns submitted by the departments are now expected to reflect information relating to the value of individual contracts and details relating to competitive tendering and the completion of post project evaluations.

However, in 2007-08 and 2008-09 some departments filed returns that did not provide all of the information required. For example, we were unable to calculate the total value of the contracts issued in each respective year as this information was not available for all contracts. DFP told us that it has continued to pursue this information but expressed concern that substantial effort was required in 2007-08 and 2008-09 to verify and agree the information provided in the returns submitted by the departments.

3.18 In response to a recommendation in the 2008 PAC report, DFP produces an annual compliance report, including the results of its test-drilling exercise. The report covers one financial year and is informed by the annual external consultancy returns and the test-drilling exercise completed on the data provided by the departments.

3.19 To be of value, the test-drilling exercise needs to be undertaken on a timely basis and the findings widely disseminated.

3.20 We noted that there have been significant delays in producing the annual compliance report. The 2007-08 annual compliance report was published in June 2009, some 15 months after the year end, and the 2008-09 annual compliance report was published in October 2010 some 19 months after the year end. There were a number of factors that impacted on this delay:

- DFP requested the external consultancy returns approximately

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3 months after the year end in June 2009;

- There was substantial time spent in confirming the information provided in the returns, this took approximately 9 months;
- Test-drilling commenced in March 2010 and was largely completed by July 2010, at this stage DFP provided feedback to individual departments; and
- The compliance report was published in October 2010.

3.21 The 2009-10 departmental returns were requested on 15 October 2010.

3.22 The purpose of conducting test-drilling is to monitor external consultancy expenditure and identify ways of improving future performance in managing external consultancy engagements. However, there is limited scope for departments to address issues and respond to conclusions if this information is not available on a timely basis and disseminated to the appropriate audience for consideration and action.

Recommendation 9

DFP expressed concern regarding the quality of information presented by departments in the annual consultancy returns and indicated that this had contributed to the delays encountered in producing the annual compliance report. Departmental Accounting Officers must ensure that the information provided to DFP in the Annual Consultancy Returns is accurate and complete and provided on a timely basis. This should facilitate the implementation of recommendation 10.

Recommendation 10

DFP should ensure that Annual Consultancy Returns are commissioned more promptly and that test-drilling is undertaken upon receipt of this information. This should assist the department in producing the annual compliance report on a more timely basis.

Recommendation 11

It is important that any lessons in the Annual Compliance Report are disseminated to the appropriate officials within each department on a timely basis. We recommend that each department ensures that the Annual Compliance Report is provided to Accounting Officers for dissemination to departmental audit committees, consultancy coordinators and the wider department.

Appendix 1 (paragraph 1.6)

PAC Report on Use of Consultants

10 January 2008, 16/07/08R

	PAC Recommendation	DFP Commitment
1	The cost of external consultancy to Northern Ireland Civil Service (NICS) departments and related bodies more than doubled in five years and looks like it is out of control. It must not be allowed to continue to rise at this rate and the Committee recommends that DFP should work with departments and produce a formal strategy to reduce their dependency on external consulting.	DFP shares the Committee's concerns about the increase in consultancy expenditure, although it recognises that much of this has been due to a number of large projects and the major reform programmes which have required specialist advice at all stages. DFP does not consider that it is necessary to produce a formal strategy, but it will work with departments to help manage expenditure on consultancy. DFP will reissue guidance to departments to reiterate that external consultants should be retained only after full consideration has taken place, including the appropriate use of in-house capacity and is strengthening its internal Business Consultancy Service so as to build up in-house capacity and capability.
2	To develop in-house consultancy resources, the Committee recommends that the NICS should identify large-scale consultancy work required in the medium to long term, identify the skills necessary to undertake this work and devise a strategy to plug any skills gaps identified.	DFP agrees that the NICS should identify skills shortages and plug identified gaps. However, it would note that often consultancy assignments are commissioned at short notice to deal with a particular issue or project which has arisen and therefore it is not always possible to identify large scale consultancy work in the medium to long term. The Centre for Applied Learning (CAL) has the objective of developing the capacity and capability of the NICS to meet current delivery challenges and be prepared for the future. Meeting skills gaps is one of CAL's priorities and its forward work programme will address this issue.
3	The Committee expects DFP, through Account NI, to reintroduce a central database, with appropriate quality control arrangements. This should produce comprehensive and accurate data on all consultancy expenditure at the touch of a button.	DFP accepts this recommendation. DFP will re-introduce annual reports from departments which, when collated, should provide an overview of the extent and nature of consultancy expenditure throughout the NI departments. The new Account NI financial reporting system will record comprehensive financial data on a common basis and will facilitate the production of reports on consultancy spend on a more timely and accurate basis.

4	<p>The Committee recommends that in future, departments must ensure that they give comprehensive and consistent information on consultancy expenditure in response to requests from elected representatives. Information put into the public domain must be complete and should clearly delineate all categories of consultancy costs.</p>	<p>DFF accepts this recommendation and will issue revised guidance in an attempt to clarify definitions of the types of consultancy and classifications of expenditure leading to more consistent recording of information. DFP will also seek assurances as part of the annual returns from departments that all information is reconciled with expenditure in departmental resource accounts, and Account NI once departments move to the new system.</p>
5	<p>The Committee recommends that DFP produces an annual compliance report, summarising the results of its test drilling exercise. As a minimum, this report should assess the extent to which departments have complied with the requirements to undertake business cases, competitive tendering and post-project evaluation. The Committee would also like the C&AG to consider revisiting this area, say in the next 18 months, by which time we expect to see significant improvement in compliance with best practice guidance.</p>	<p>DFF accepts this recommendation and, starting with 2007/08 financial year, will commission an annual return from departments on aspects of their use of consultants. DFP will analyse these returns and carry out test drilling exercises. DFP will summarise its findings and circulate these to departments so that best practice can be shared. DFP notes that the Committee would like the C&AG to revisit this area.</p>
6	<p>It is important that there is full clarity about the position of Northern Ireland Water (NIW). DRD completely owns the company and the Northern Ireland taxpayers pick up the bill for any failure to ensure value for money in NIW. The Committee therefore recommends that DFP guidance should apply in full to NIW's use of consultants.</p>	<p>DRD recognises the Committee's desire for clarity on this issue. Northern Ireland Water (NIW), as a government owned company, was established drawing on best practice governance arrangements through the adoption of the Shareholder Executive Model. The key principles of this approach are clarity, transparency, value and professionalism. In preparation for the establishment of NIW from 1 April 2007, DRD, in conjunction with DFP, reviewed the financial delegations for the company. This was done in the context of the development of the Governance Letter for the company taking account of the provisions contained in DAO (DFP) 06/05 – Departmental Delegations/Requirement for DFP Approval. In line with the objectives of water reform, DRD and DFP agreed the financial delegations which would enable NIW to operate effectively in its new commercial and regulated environment and deliver the targets set out in the NIW Strategic Business Plan. For any expenditure on external management consultancy assignments above the delegated limit, NIW is required to seek the Minister's approval and the approval of DFP. DRD monitors the governance arrangements through the quarterly Shareholder Meetings. As part of this process it will put in place a specific mechanism to monitor NIW's use of external management consultants and to enable it to review the current arrangements in light of the Committee's recommendation.</p>

Appendix 1 (paragraph 1.6)

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7	<p>It is important that public officials, including board members, avoid perceptions of conflicts of interest or impropriety. The Committee recommends that departments and related bodies must have appropriate controls in place, test the efficacy of these controls on a regular basis and should report the results in an open and transparent manner, for example through their Audit Committees.</p>	<p>DFF accepts that it is important to avoid the perception of conflicts of interest or impropriety. All offers of hospitality are regularly reviewed at departmental senior management meetings and also at the Permanent Secretary Group where offers are NICS wide. DFF would expect that any significant potential conflicts of interest relating to a board member or senior manager, which cannot be eliminated, should be brought to the attention of the Audit Committee.</p>
8	<p>Departments must complete business cases of an appropriate quality to justify using consultants and to define the scope and outputs. The Committee recommends that, for all major consultancy projects (over £75,000), Centres of Procurement Expertise (CoPEs) are always used to assist departments and related bodies in preparing robust business cases.</p>	<p>DFF accepts that business cases for the use of consultants must be robust, but proportionate and fully justify their engagement. Centres of Procurement Expertise (CoPE) would not normally assist departments in preparing business cases but have the skills to procure the required consultancy services identified in the business case. The revised guidance being issued by DFF will make clear that all consultancy assignments, other than those of a very low value should be procured through a CoPE, unless otherwise approved directly by the accounting officer.</p>
9	<p>The Committee is amazed to find that departments can breach delegated limits yet avoid sanction if they receive retrospective approval from DFF. The Committee recommends that this bad practice must stop as it sends the wrong signals to departments who have, in effect, incurred irregular expenditure</p>	<p>DFF notes the Committee's concerns about retrospective approvals. Section 10(2) of the Government Resources and Accounts Act (Northern Ireland) 2001 provides the legal power for retrospective approvals and, in such an event, the C&AG has to treat the expenditure as always having had DFF's approval. But DFF accepts that regular retrospective approvals may send the wrong signal to departments and will therefore only provide such approvals in exceptional circumstances where it is satisfied that the circumstances justify such an approval being given.</p>
10	<p>Procuring consultancy by non-competitive tendering makes it difficult to demonstrate that value for money has been achieved. The Committee, like DRD, has a predisposition very much against non-competitive tenders and considers it would be prudent to set targets to minimise its use. Any decisions to procure without competitive tendering above a minimal threshold must be reported to the respective Audit Committees.</p>	<p>DFF accepts these recommendations and will provide revised guidance to departments requiring that all non-competitive tendering within departmental delegated limits must have specific Accounting Officer approval and, if material, reported to the Audit Committee. All business cases requiring DFF approval will only be considered after obtaining the approval of the departmental accounting officer. DFF will also monitor the use of single tender actions by departments through the proposed annual returns.</p>

11	<p>The Committee is disturbed by DRD's suggestion that the risks from non-competitive tenders are mitigated if authorised by senior management. As noted above, non-competitive tendering should be very much the exception but where it is considered it should be authorised only by Accounting Officers who will be aware that they may be required to explain such decisions to this Committee.</p>	
12	<p>The Committee strongly advocates the use of CoPEs and recommends that all contracts are negotiated through them by procurement experts.</p>	<p>DFP accepts this recommendation. Procurement Board policy requires all departments to route procurement of all works, supplies and services through a CoPE. The revised guidance being issued by DFP will make clear that all consultancy commissions, other than those for a minimal amount, must be procured via a CoPE unless specifically approved by the accounting officer.</p>
13	<p>The Committee recommends that the Central Procurement Directorate takes the lead in developing improved contracts in which the risks of cost escalation are shared more evenly with consultants. It should seek to pilot a greater degree of performance related contracts and benchmark against traditional fixed cost contracts</p>	<p>DFP's Central Procurement Directorate accepts this recommendation and will review the standard contract arrangements to ensure that the risk of cost escalation is mitigated and allocated appropriately and fairly to where it can be best managed. CoPEs will be encouraged to use incentivised and performance contracts where ever possible to ensure best value to the public purse.</p>
14	<p>Post project evaluations must be completed in all cases, be of appropriate quality and highlight facets of the consultants' performance which may be of interest for future assignments. Departments must follow the guidance more rigorously and the Committee expects DFP to monitor this issue and believes that Audit Committees can play a key role in promoting compliance.</p>	<p>DFP accepts this recommendation and will pursue the completion of Post-project evaluations within departmental delegated limits with departments as part of the annual return exercise. DFP agrees that Audit Committees can play a key role in promoting compliance and will recommend that this is an issue which Audit Committees should consider on a periodic basis.</p>
15	<p>The Committee expects to see all CoPEs improve their databases to capture the results of postproject evaluations and to disseminate performance information. If post project evaluations show recurrent poor performance this could lead to consultants being removed from Framework Agreements.</p>	<p>DFP accepts this recommendation. CoPEs will ensure that their management information systems facilitate the recording of results from post-project evaluations and to share this with other CoPEs. Recurring poor performance by consultants will be identified and their removal from current Framework Agreements will be considered in light of evidence and legal advice.</p>

Appendix 1 (paragraph 1.6)

PAC Report on Use of Consultants

10 January 2008, 16/07/08R

16	<p>Post-project evaluations should offer the potential to recover fees from a consultant who has not performed. They must assess the quality of advice obtained and, where it is flawed, action should be taken to seek compensation from consultants.</p>	<p>DFF notes this recommendation. Performance is best assessed during an actual assignment and dealt with, as necessary by, for example, requesting work to be redone or even the withholding of a fee. Post project evaluations are a tool to evaluate whether the project met the objectives set and to identify best practice and lessons learnt and do not, in themselves, provide a vehicle to seek compensation from under-performing consultants. PPEs should however record, if appropriate, that an unsatisfactory piece of work was obtained.</p>
17	<p>Protecting the public purse should always be a paramount consideration in public sector procurement. The Committee recommends Framework Agreements should, wherever possible, be used in the procurement of consultancy. Departments must also exploit their collective purchasing power to greater effect by exchanging information regularly on planned consultancy assignments and identifying specific opportunities for joint procurement.</p>	<p>DFF accepts this recommendation. The use of Framework Agreements to procure consultancies provides economies of scale and enables departments to reduce the timescales required in primary competitions and in turn expedite the procurement process leading to efficiency savings. The Central Procurement Directorate already works with departments and other CoPEs to collate information on volume and value of consultancy commissions to provide economies of scale when approaching the market. However, there may be occasions when a specific procurement, rather than using a Framework, will provide better value for money. An informed decision on the procurement route will be made by the relevant CoPE in conjunction with its client department.</p>

Appendix 2 (paragraph 1.7) Actions reported by DFP following 2007 PAC hearing on Use of Consultants

DFP provided a comprehensive list of actions taken since the last NIAO report and the report by the PAC:

New Guidance

- New guidance issued March 2009 (FD(DFP)04/09), which came into effect on 1 April 2009, has helped clarify when consultants should be engaged and clarify the definitions to be used when recording and reporting expenditure on consultants. The new guidance also reflected developments in Whitehall departments.
- The guidance strengthened issues around business cases, approvals, completion of Post Project Evaluations, the need for competitive tendering and the requirement for accurate and consistent expenditure information.
- The new guidance also makes it clear that departments should assess the potential for consultants to transfer knowledge and skills to public sector staff to the greatest extent possible, thereby reducing the future need to engage external consultants.
- Now that the guidance has been implemented for 18 months, DFP are in the process of carrying out a review of its implementation and will address any remaining areas of concern and provide further clarification where necessary. In particular, issues around definitions and the reporting of accurate and consistent information will be addressed.

Procurement

- Officials in CPD have reviewed contract management arrangements, Centres of

Procurement Expertise have been encouraged to use incentivised and performance contracts wherever possible and a new e-Sourcing tool is available which includes a full contract management module for recording PPEs.

Annual Returns from Departments & Compliance Report

- To address the central management of consultants, DFP has reintroduced annual reports from all NICS departments from 2007-08 to provide an overview of the extent and nature of consultancy. DFP analyse these returns, carry out test drilling exercises, and summarise and circulate the findings so that best practice can be shared. Issues looked at include business cases, approvals, single tender actions, PPEs and compliance with guidance.
- These reports have shown that there has been an overall reduction in the level of expenditure on external consultants since 2007-08 which is to be welcomed and that compliance with guidance is generally improving. Issues highlighted by the validation exercise are addressed with individual departments.
- In relation to Single Tender Actions, DFP issued Procurement Guidance Note 02/10 which stresses that only the Departmental Accounting Officer, i.e. the Permanent Secretary of a department, can approve a decision not to use competitive tendering.

Skills Gap

- DFP has undertaken work to identify and plug the skills gap and has continued to further develop the capacity and capability

Appendix 2 (paragraph 1.7) Actions reported by DFP following 2007 PAC hearing on Use of Consultants

of Business Consultancy Service (BCS), the consultancy group within the Department's Information, Strategy and Innovation Division.

- The BCS group is mandated to serve the 12 NICS departments, and their executive agencies and is staffed with 26 experienced business consultants, a number of whom hold accredited management consultancy qualifications. All BCS staff currently follow a Continuous Professional Development programme which is linked to the industry's professional consultancy standards.
 - The revised 'Guidance on the Use of External Consultants' advises departments and their agencies to initially examine departmental resource. Where this is not available, departments are advised to consider a range of approaches before engaging external consultancy support including contacting BCS to establish whether this group has the capability and capacity to meet the department's needs.
 - Departments have in the past been accused of not always having the knowledge and skill to get value from their consultants. A service now being provided by BCS is to challenge the need for the engagement of business consultants and where appropriate to set clear and relevant expectations of consultants and to contribute to the development of the Terms of Reference for the project.
 - Although this service is still developing there are early indications that it will improve the outputs and benefits that departments will receive from the engagement of consultants. Where appropriate this will result in work being undertaken internally by departmental and BCS staff.
 - Work is also underway, led by Permanent Secretaries Group (PSG) to assess the potential demand for internal consultancy services across a range of professional skill areas, and to consider improving the utilisation of these skill areas at an NICS level.
 - An outcome of this work will provide management data to inform decisions on which professional skill areas to develop and what models to put in place. This will help reduce the uptake of external consultancy support.
-

Appendix 3 (paragraph 1.13)

Methodology

Method	Purpose
<p>1. Review of contracts We selected a sample of 100 external consultancy contracts across all Northern Ireland Civil Service (NICS) Departments over the two year period 2007-08 to 2008-09. The sample included a range of small and high value contracts. <i>(see Appendix 4 for more details)</i></p>	<p>To assess the level of compliance with the DFP guidance on the use of external consultants and the level of improvement since our report on the use of consultants in 2004.</p>
<p>2. Interviews with consultancy coordinators Each of the NICS departments has appointed a consultancy coordinator to maintain records of external consultancy engagements in their department and to file returns to DFP. We developed a checklist for completion during an interview with each of the coordinators. The interview notes were documented and agreed with the coordinators upon completion of the interviews. (A number of the coordinators provided a written response to the checklist rather than attending an interview).</p>	<p>To gauge the coordinators' views on the effectiveness of DFP's oversight role. This involved seeking opinions on the clarity provided by the DFP guidance on the use of consultants and the management of the consultancy database and test drilling exercises.</p>
<p>3. Interviews with Central Procurement Directorate (CPD) and Business Consultancy Service (BCS) We met with Directors in CPD and BCS.</p>	<p>To gather information on the services provided to the NICS by each of the respective bodies.</p>
<p>4. Collation of data We commissioned consultancy returns from each of the departments. The returns incorporated data relating to in-year spend on external consultancy, internal consultancy, staff substitution, contracted out services and research in 2007-08 and 2008-09 for the core departments and their Arms Length Bodies.</p>	<p>To assess the level of consistency in the information provided by departments in relation to consultancy spend and to gauge the level of clarity in relation to distinguishing between the categories of spend.</p>
<p>5. Literature reviews We reviewed DFP publications relating to use of consultants including guidance issued to departments and the DFP Annual Compliance Reports. We also examined previous reports on the use of consultants by PAC and other audit bodies.</p>	<p>To identify good practice in the use of consultants to inform our findings and recommendations.</p>

Appendix 4 (paragraph 1.13)

Sample Selection

Sample Selection

DFP maintains a database of consultancy expenditure incurred by each NICS department. This information, is collated on an annual basis, and once DFP has verified its accuracy it can then be used to answer Parliamentary and/or Assembly Questions.

To ensure that our findings were representative of consultancy expenditure across the NICS, we selected a sample of 100 contracts over the two year period 2007-08 to 2008-09 (2009-10 consultancy expenditure details were not available) to cover all departments and to include a range of small and large value contracts. A sample of 50 contracts was selected from each of the two years.

Coverage across Departments

Our sample extended across all departments as shown in the table below.

Department	Sample Size
Department of Agriculture	3
Department of Culture, Arts and Leisure	8
Department of Education	8
Department for Employment and Learning	5
Department of Enterprise, Trade and Investment	12
Department of Finance and Personnel	16
Department of Health, Social Services and Public Safety	11
Department of the Environment	7
Department for Regional Development	6
Department for Social Development	8
Office of the First Minister and Deputy First Minister	12
Northern Ireland Authority for Utility Regulation	4
TOTAL	100

Contracts Examined

Within our sample of 100 contracts, 14 contracts were excluded from our analysis. A total of 13 contracts selected for review did not in our opinion meet the definition of external consultancy. We discussed our findings with the departments concerned and agreed that these contracts were incorrectly classified as external consultancy. The value of these contracts totalled £1,530,574, excluding one of the contracts that was valued on a daily rate basis but incurred £122,808 of expenditure in-year. A summary of these contracts is provided below. One contract was recorded on the database twice as expenditure was incurred across years.

Department	Number	Value (£s)
Department of Culture, Arts and Leisure	3	97,969
Department for Employment and Learning	1	96,970
Department of Education	1	10,000
Department of Enterprise, Trade and Investment	1	245,700
Department of Finance and Personnel	3	197,617
Department for Social Development	2	754,500
Office of the First Minister and Deputy First Minister	2	127,818*
TOTAL	13	1,530,574

* includes £122,808 of actual expenditure incurred on a contract that was valued on a daily rate basis.

Proportion of expenditure covered by sample

For the remaining 86 projects we tested compliance with DFP guidance. The total in-year expenditure on the 86 contracts was £10,350,303 which was equivalent to 20 per cent of the total NICS external consultancy expenditure incurred in the period 2007-08 to 2008-09.

Although the guidance has subsequently been withdrawn and replaced by DAO (DFP) 04/09, we assessed the level of compliance of the 86 contracts in our sample against DAO (DFP) 03/05 as this was the guidance in place during 2007-08 and 2008-09.

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Title	Date Published
2011	
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