



Northern Ireland Audit Office

# Use of Consultants

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

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Northern Ireland Audit Office

Report by the Comptroller and Auditor General  
for Northern Ireland

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# Use of Consultants



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 the Order. The report is also to be laid before both Houses of Parliament in accordance with paragraph 12 of the Schedule to the Northern Ireland Act 2000, the report being prescribed in the Northern Ireland Act 2000 (Prescribed Documents) Order 2002.

*J M Dowdall CB*  
Comptroller and Auditor General

**Northern Ireland Audit Office**  
9 June 2004

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For further information about the Northern Ireland Audit Office please contact:

**Northern Ireland Audit Office**

106 University Street

BELFAST

BT7 1EU

Tel: 028 9025 1100

email: [info@niauditoffice.gov.uk](mailto:info@niauditoffice.gov.uk)

website: [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk)

## List of Abbreviations

CPD	Central Procurement Directorate
DARD	Department of Agriculture and Rural 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 the Environment
DRD	Department for Regional Development
DSD	Department for Social Development
DSO	Departmental Solicitors Office
ELB	Education and Library Boards
EU	European Union
GB	Great Britain
GPA	Government Purchasing Agency
GPS	Government Purchasing Service
IMC	Institute of Management Consultancy
MCA	Management Consultancy Association
NAO	National Audit Office
NDPB	Non-Departmental Public Body
NI	Northern Ireland
NICS	Northern Ireland Civil Service
OFMDFM	Office of the First Minister and Deputy First Minister
OGC	Office of Government Commerce
PAC	Public Accounts Committee
PQ	Parliamentary Question

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# Executive Summary

## Background

1. Northern Ireland Government departments use consultants to provide a range of advisory and support services. Consultants can play an important role in investigating problems, providing analysis and advice or assisting with the development of new systems, new structures or new capabilities within departments.
2. However consultancy can be expensive and it is therefore important that it is appropriately managed by departments. Consultancy expenditure in the Northern Ireland Civil Service (NICS) has risen from just over £10 million in 1998-99 to some £18.6 million in 2002-03, an increase of more than 75 per cent. Departments have spent approximately £68 million on consultancy over the last 5 years.
3. In Great Britain, a number of reports, particularly a 1994 report by the Efficiency Unit and reports in 2001 by the National Audit Office and by the Public Accounts Committee, identified scope to improve value for money in the procurement of consultancy services. In response to the 1994 Efficiency Unit report, the Department of Finance and Personnel (DFP) produced guidance on the use of consultants by Northern Ireland (NI) departments.
4. This report examines the extent to which DFP's guidance on the use of consultants is being applied and whether there is scope to update the guidance to improve the purchasing of consultancy services by departments. Our examination covered the quality of procurement processes within NI departments. We also reviewed the adequacy of DFP's guidance and the extent to which DFP fulfilled its monitoring role and responsibilities.

5. During this study, we examined a sample of 100 consultancy contracts to assess the extent to which departments were adhering to DFP's guidance; we identified current procurement best practice and used it as a benchmark to assess the guidance; and we reviewed procedures within DFP on the maintenance of its database of consultancy expenditure in the NICS.

## Main Conclusions and Recommendations

### On the extent of departmental compliance with DFP's guidance on the use of consultants (Part 2 of the Report)

6. Overall, we found that there is considerable scope for departments to implement the guidance on the use of consultants more rigorously. Our case studies indicated that departments undertake a significant majority of consultancy projects without formally reviewing the need to use consultants and without undertaking post-completion evaluations to learn lessons and share good practice within the department or across the NICS. There remains a relatively high proportion of single point tenders and consultancy projects are often extended so that the final costs significantly exceed the original contract value (paragraph 2.4).
7. Specifically, we noted that:
  - **appraisal** - our case studies indicated that departments are failing to produce the business cases required by the guidance and consequently are undertaking inadequate appraisal of their spending on consultancy. We found that 74 per cent of contracts sampled did not have a formal business case. Extrapolating the findings from our sample across departments' reported expenditure suggests that some £8.4 million per annum may be spent on consultancy without departments having established a clear business need, quantified the prospective costs or benefits, reviewed alternative delivery mechanisms or specified management and

implementation arrangements. Departments need to put in place systems to ensure that projects comply with DFP guidance and are supported by an appropriate business case (paragraphs 2.6 - 2.14);

- **tendering procedures** - the administration of public procurement is governed by key principles including the need to carry out procurement by competition unless there are convincing reasons to the contrary, to treat suppliers fairly and without unfair discrimination and to ensure that there is openness and clarity in the delivery of procurement policy. We were therefore surprised that around a third of contracts by value in our case studies were not tendered competitively. Departments need to control this more tightly since competitive tendering offers the best means of ensuring value for money and adhering to the principles of public procurement (paragraphs 2.15 - 2.21);
- **project control and management** - over two thirds of our sampled projects were let on a fixed or capped fee basis. Despite this, we found a large number where the original contract was subsequently extended and where the final payments significantly exceeded the original fees agreed in the contract. In total, some 45 per cent of contracts we reviewed were extended by departments or experienced cost overruns. The additional payments in these cases represented an increase of 65 per cent over their original cost. Departments need to proactively manage consultancy assignments to control the number of contract extensions and the value of fee increases (paragraphs 2.22 - 2.26); and
- **post-completion assessment** - we found little evidence that departments are following DFP's guidance on post-project assessment. Within our sample, 93 per cent of consultancy expenditure was paid out without being subject to any documented assessment procedure to assess the benefits of the work, whether it met its objectives and whether there were any lessons for future projects. Extrapolated across the total reported annual expenditure on consultancy across the NICS, this indicates that

departments may be incurring spending of £17 million a year which has no documentary evidence of formal review and assessment. Departments must ensure that consultancy assignments undergo appropriate formal post-completion assessment (paragraphs 2.27 - 2.35).

8. A key theme in recent good practice guidance is the need for departments to identify opportunities to collaborate and to harness their collective purchasing power to get better deals. We did not find any evidence that departments were systematically sharing information on proposed projects, fee rates, the performance of suppliers or lessons learnt. DFP told us that its Central Procurement Directorate (CPD) seeks opportunities for greater collaboration across the NICS through the use of Framework Agreements. We welcome this development and recognise that such an approach should improve collaboration in the future (paragraphs 2.36 - 2.39).

### **On the role of DFP in the use of consultants (Part 3 of the Report)**

9. DFP has two main roles in the purchasing of consultancy services. Firstly, its Central Procurement Directorate (CPD) acts as a core professional procurement body and, under its Framework Agreement, can provide tendering and contract management services for all departments. Secondly, DFP is charged with providing guidance and advice to other departments, monitoring and auditing their expenditure and responding to Parliamentary Questions (paragraphs 3.1 - 3.2).
10. CPD can play an important role in the purchasing of consultancy services. CPD has developed a Framework Agreement with external consultancy suppliers in line with European Union (EU) Procurement Regulations. Appropriate use of the Framework offers departments the benefits of compliance with EU Regulations, reduced internal processing costs and access to competitive fee rates. Given this, we were surprised to note that only £4 million (less than one quarter of departmental expenditure on consultancy) was let under the Framework Agreement in 2001-02. Based on CPD's calculations, we estimate that

departments may have failed to secure savings in excess of £2 million per year because they are not using the Framework. Departments should be reminded of the benefits of the Framework and encouraged to make fuller use of it (paragraphs 3.4 - 3.9).

11. Because DFP issued its guidance in response to the 1994 Efficiency Unit report, we found that this guidance addresses the main concerns from that report and promulgates good practice. The guidance is clear that departments are expected to consider in advance whether consultants are really necessary, justify their use based on business need, avoid duplication and overlap with other departmental consultancy projects and assess the value of the consultancy input (paragraph 3.11).
12. However best practice in procurement has developed since the 1994 Efficiency Unit report and we believe that there is scope for DFP to enhance and update its guidance to take account of current best practice. In particular, we believe that the new guidance should emphasise the need for departments to improve their management information systems, harness their collective bargaining power, proactively manage consultancy projects and develop communications networks across the NICS. DFP indicated to us that a number of new procurement policy developments will help to address these best practice issues (paragraphs 3.12 - 3.14).
13. As part of its central role, DFP is required to monitor and audit departmental expenditure. DFP maintains a database of consultancy expenditure by department and by category of consultancy. However, we found that departments were not necessarily completing their returns in full. The variable nature of the data provided for each department limits the extent to which DFP can use its database as a management information tool to monitor expenditure. We consider that DFP should develop its database in order to help it better fulfil its monitoring and audit functions (paragraphs 3.15 - 3.21).

14. During our study we identified a number of areas where the accuracy and completeness of DFP's database needs to be improved. For example:
- the consultancy expenditure of one department was overstated;
  - a number of studies were disclosed twice on the database;
  - some departments included staff substitution and research expenditure (which fall outside the remit of the DFP guidance) while others did not; and
  - some departments included the consultancy expenditure of their Non-Departmental Public Bodies whereas others excluded such spending.
15. Because the DFP database is used to answer certain Parliamentary Questions, it is important that the database is consistent, comprehensive and clearly-defined. Our examination indicates that the information provided by departments to DFP needs to be improved to meet the standards required (paragraphs 3.22 - 3.29).



# Part 1

## Introduction and Background

- 1.1 Northern Ireland Government departments purchase professional services from a wide range of consultancy organisations in areas such as management, finance, engineering and environmental advice, human resources, corporate governance and internal audit support services. Many of the same types of service are used across all departments and in most areas there is a large number of suppliers. There is therefore potential for departments to improve value for money by following good practice procurement guidance. This includes awarding contracts competitively, evaluating supplier performance, sharing information and avoiding duplication of activity.

### **Consultancy expenditure by NI departments in 2002-03 was £18.6 million and has increased significantly over recent years**

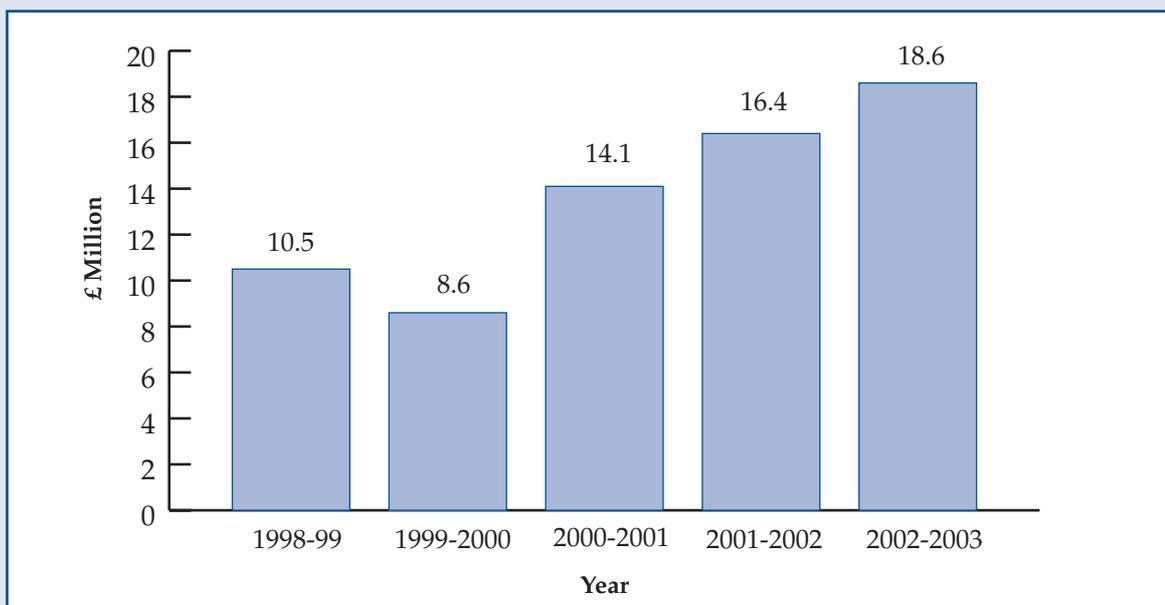
- 1.2 Information on Northern Ireland Civil Service (NICS) departments' expenditure on consultancy services is collated annually by the Department of Finance and Personnel (DFP). Total consultancy expenditure reported by NI government departments over the 5 year period to March 2003 was approximately £68 million, an average of £13.6 million per year (but we note that these figures do not include all NICS expenditure on consultants - see Part 3 of our report)<sup>1</sup>. DFP's records show that reported expenditure during this period has risen from just over £10 million in 1998-99 to some £18.6 million in 2002-03, a rise of over 75 per cent (see Figure 1).

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<sup>1</sup> In 2001-02 the Department for Regional Development (DRD) reported consultancy expenditure of £2.6 million to DFP. However the Annual Accounts of Water Service and Roads Service (two of DRD's Agencies) disclosed consultancy expenditure of over £19 million. The £19 million included expenditure on consultants undertaking a project feasibility, design or supervisory role. DFP advised us that such expenditure is excluded from its guidance and therefore is not reported in departmental returns. See paragraph 3.23.

1.3 DFP told us that the period under review was one of very significant change for the NICS as it coincided with devolution. The move from six to 11 departments presented major challenges for staff and a considerable amount of external help was required in setting up new systems and processes. In addition, there were other pressures facing departments such as the introduction of resource accounting. While this was not directly related to devolution, the split of budgets (and staff) over the new departments created additional pressures on finance staff and departments often had to employ consultants to meet external deadlines.

**Figure 1: Consultancy expenditure in NI departments 1998-99 to 2002-03**

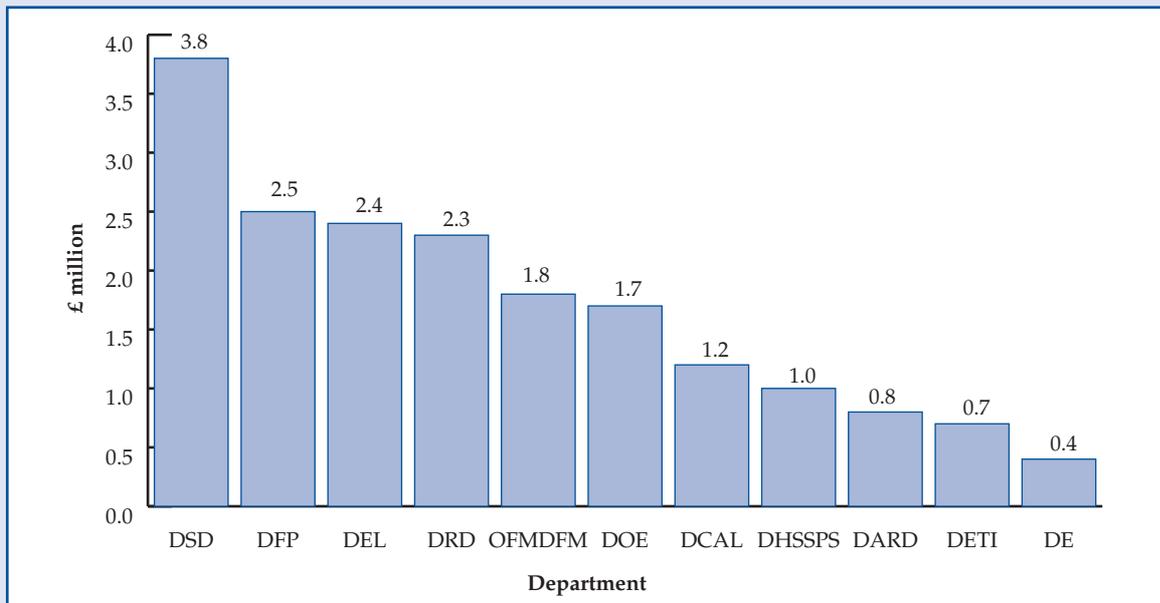


Source : DFP

1.4 The latest DFP information on departmental consultancy expenditure relates to 2002-03 (see Figure 2). Around 60 per cent, or £11 million, of consultancy expenditure in 2002-03 was incurred by four departments, the Department for Social Development (DSD), the Department of Finance and Personnel (DFP), the Department for Employment and Learning (DEL) and the Department for

Regional Development (DRD). The Department of Education (DE) recorded the lowest expenditure level of just over £400,000 (although see Note under Figure 2).

**Figure 2: Consultancy expenditure by department 2002-03**



Source : DFP

Note: DFP has highlighted that the DHSSPS and DE returns exclude consultancy expenditure by the Health and Social Service Boards and by the Education and Library Boards respectively (see paragraph 3.23) and, for that reason, it is difficult to draw direct comparison with other departments.

1.5 NIAO is aware that a number of departments use consultants to provide advice and support to clients under grant-aided schemes in areas such as industrial development, energy, training and environment. The good practice lessons emerging from this study should be considered for all consultancy services commissioned from public funds to ensure they deliver best value.

### **Previous studies in Great Britain indicate that there is scope to improve value for money in the procurement of professional consultancy services**

- 1.6 In August 1994, the Great Britain (GB) Efficiency Unit published a report on *The Government's Use of External Consultants*. This report considered Government spend on consultants and the benefits it derived; examined best practice in the use of consultants and how current practice across Government measured up against this standard; and considered the changes needed to bring current practice up to the level of the best.
- 1.7 The report concluded that:
- departmental use of consultants at times appeared to be a reaction to an immediate and pressing problem without sufficient thought to the purpose, likely benefits or the division of work between the consultants and in-house staff;
  - there were few examples of purchasers looking first at previous assignments within other departments or considering alternative ways of tackling the problem. Collaboration between departments and Agencies facing similar problems was limited; and
  - too many projects were being let by single tender and, where there was competitive tendering, departments had difficulties identifying the most appropriate consultant because of deficiencies in the existing information sources.
- 1.8 The report identified nine critical success factors (see Appendix 1) and made a number of recommendations to improve the procurement and management of consultants. It also reminded departments of the need to use consultants only on matters of real importance to the organisation, after consideration of in-house or less expensive solutions; to manage the consultants effectively; to implement the results of their work; and to assess the value for money derived at the end of the assignment.

1.9 The National Audit Office (NAO) issued a report on 25 April 2001 on *Purchasing Professional Services* which was subsequently considered by the Public Accounts Committee<sup>2</sup> (PAC). PAC concluded that GB departments had little evidence of implementation of the recommendations of the 1994 Efficiency Unit report and needed to draw up and implement action plans for securing the efficiency savings from accepted recommendations. PAC also recommended that departments should:

- take action to improve their quality of information on the procurement of professional services;
- consider carefully how to divide work between external suppliers and in-house staff;
- introduce controls to reduce the incidence of single tendering; and
- recognise the considerable potential to make savings by using framework agreements to purchase professional services.

### **In Northern Ireland, the Department of Finance and Personnel has issued detailed guidance on the use of consultants**

1.10 In response to the findings of the August 1994 GB Efficiency Unit Report, DFP issued a circular (DPS(DFP) 2/95) to Permanent Secretaries of Northern Ireland Government departments which set out guidance on the use of consultants.

1.11 The DFP guidance applies to all contracts for external consultancy services. However it excludes expenditure on research and on staff substitution. It sets out the respective roles of DFP and departments in ensuring effective use of consultants.

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<sup>2</sup> *Better Value for Money from Professional Services*, Committee of Public Accounts - Twenty First Report HC 309 2001-2002.

- 1.12 DFP is primarily charged with a central role of providing guidance and advice to departments, monitoring and auditing their overall expenditure and centrally answering any Parliamentary Questions. For departments, the guidance outlines general requirements in letting, monitoring and controlling each contract and specifies the need for them to address value for money considerations and avoid overlapping or duplication of consultancy work across the NICS.
- 1.13 There have been developments in general procurement practice since the issue of its 1995 guidance. In 1996, the Government Purchasing Agency (GPA) was formed from the former Government Purchasing Service (see paragraph 3.11) to provide a professional procurement service to the NICS. This included access to a consultancy Framework Agreement. In 2002, a Procurement Board was established, with membership comprising all Permanent Secretaries, to develop, disseminate and co-ordinate public procurement policy and practice across the entire public sector. In addition DFP's new Central Procurement Directorate (CPD) was formed to support the Procurement Board in all aspects of public procurement policy. The GPA was amalgamated into the new Directorate and CPD continues to provide departments with access to consultancy services through Framework Agreements.

### **We examined the use of consultants by Northern Ireland departments to determine if DFP guidance was being followed and if current practice delivered value for money**

- 1.14 Our study examined the extent to which DFP's guidance on the use of consultants was being applied by NI departments and whether, based on subsequent developments such as NAO's report on the use of professional services, there was scope to update the guidance and to improve the purchasing of consultancy services in Northern Ireland. Our examination covered:
- the quality of procurement processes within NI departments and whether these complied with DFP's guidance (Part 2); and

- the adequacy of the guidance contained in DPS(DFP) 2/95 and DFP's compliance with its requirements (Part 3).

1.15 During this study, NIAO:

- identified current procurement best practice and used it as a benchmark to assess the adequacy of DPS(DFP) 2/95;
- examined procedures within DFP in relation to the maintenance of the annual database of consultancy spend;
- selected a random sample of 100 consultancy projects (see Appendix 2) and reviewed associated departmental files; and
- sought the views of local procurement experts within DFP's Central Procurement Directorate on NI departments' use of consultants.

# Part 2

## Departmental Compliance with DFP Guidance - Review of Individual Contracts

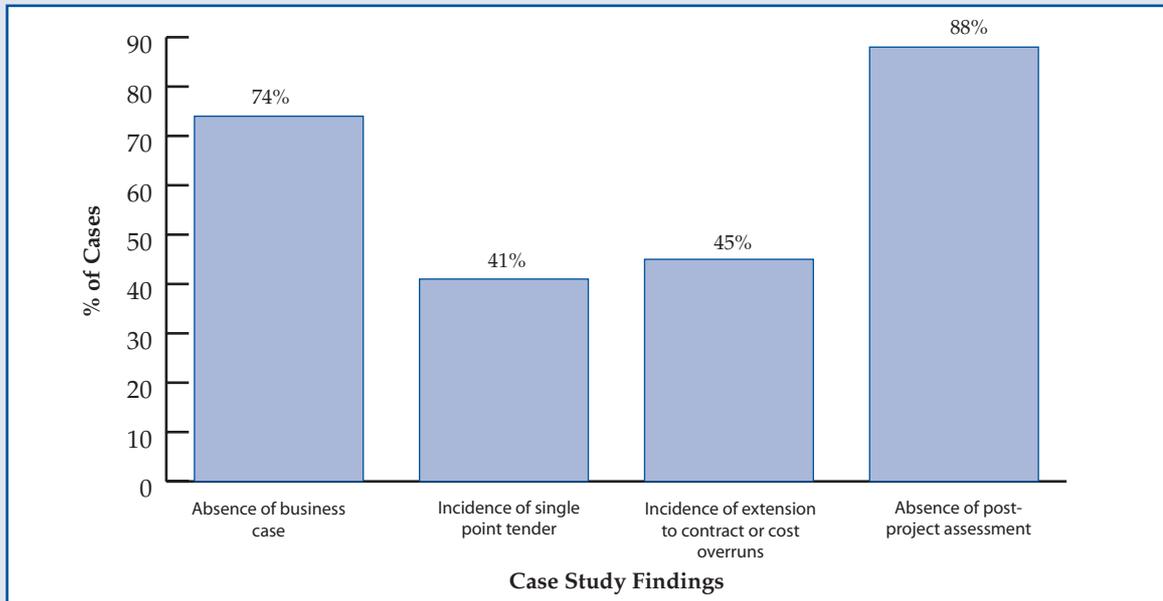
- 2.1 DPS (DFP) 2/95 (the guidance) outlines the roles and responsibilities of departments using consultants. Departments are required to have appropriate policies and management systems in place; define the need for, and scope of, consultancy projects; follow appropriate tendering procedures; meet value for money requirements; and undertake performance monitoring and reporting.
- 2.2 This part of our report assesses the extent to which departments are following the guidance by examining whether departments:
- established a clear need for commissioned projects and produced the required business case to support their use of consultants;
  - followed appropriate tendering procedures, testing in particular whether they used competition to ensure the achievement of value for money;
  - established adequate project control arrangements; and
  - undertook post-completion assessment of consultants' performance in order to inform future practice.
- 2.3 To test the performance of departments, we took a sample of 100 consultancy projects over the three year period 1999-00 to 2001-02. In undertaking our case studies, however, we had to exclude 15 of these projects from our analysis for a variety of reasons (see Appendix 2). The total in-year expenditure of the remaining 85 projects was £4.7 million which was equivalent to 29 per cent of the annual average spending on consultancy over the three years. Our analysis is based on these 85 projects.

**Overall, there is considerable scope for departments to implement DFP's guidance more rigorously to ensure that consultancy projects are appropriately appraised, are awarded competitively, that costs are more closely controlled and that post-completion assessments are undertaken**

2.4 Figure 3 summarises our findings on the extent of Department's non-compliance. Our case studies indicate that a significant majority of consultancy projects are undertaken by departments without either a formal review of the need to use consultants or without conducting post-completion assessments to learn lessons and share good practice within the department or across the NICS. There remains a relatively high proportion of single point tenders and many consultancy projects are being extended so that the final costs significantly exceed the original contract value. We identified a large number of consultancy projects which failed to comply with more than one element of the guidance. Appendix 3 provides illustrative examples.

2.5 We note the establishment of the Procurement Board in 2002 and the development of a structure to encourage departments to increase usage of Central Procurement Directorate contracts (see paragraph 1.13). We consider that greater use of CPD's Framework Agreement should improve tendering procedures, value for money and contract management. Nevertheless, (see Figure 3) we are concerned that such a high proportion of the consultancy contracts which we reviewed are failing to meet DFP's requirements and consider that departments must address this lack of compliance.

**Figure 3 : The extent of departments' non-compliance with DFP guidance**



Source : NIAO sample

### Departments are failing to establish that there is a strong business case for using consultants

2.6 The guidance requires that, for each consultancy assignment greater than £10,000, departments must prepare a business case. This business case should appraise, among other things, the need for the consultants, the costs and benefits, possible alternatives to using consultants, performance review and implementation arrangements. DFP has recently revised its guidance on economic appraisal/business cases<sup>3</sup> (the Practical Guide). This provides good practice in preparing business cases and reminds departments of the need for proportionate effort in their completion. Appendix 2 of the guidance suggests that the cost of resources devoted to the appraisal should normally be up to 2 per cent of the value of the expenditure under consideration.

<sup>3</sup> *The Northern Ireland Practical Guide to the Green Book 2003 Edition - Guidance for Northern Ireland Departments on the Appraisal, Evaluation, Approval and Management of Policies, Programmes and Projects.*

- 2.7 Our sample of 85 consultancy projects indicates that departments are failing to produce the business cases required by the guidance and consequently are undertaking inadequate appraisal of their spending on consultancy. We found that 74 per cent of contracts, with a total spend of £2.1 million, did not have a formal business case.
- 2.8 Extrapolating these findings from our sample<sup>4</sup>, suggests that a total of £8.4 million per annum may be spent on consultancy without departments having established a clear business need, quantified the prospective costs or benefits, reviewed alternative delivery mechanisms or specified management and implementation arrangements.

#### Case Study A

The department used external consultants to undertake a major policy planning exercise. No business case was produced for this assignment which was awarded without any competitive tender. Originally estimated at £48,300, the final cost was £78,800. No Ministerial or DFP approval was sought despite the fact that costs exceeded the £50,000 threshold for such approval.

- 2.9 Even in projects where the department had produced a business case, we found instances where these failed to comply fully with the guidance. For example they had been produced retrospectively, had no estimate of the costs or identification of the benefits or had not established performance review arrangements.

#### Case Study B

The department commissioned the services of an external legal consultant to provide advice on a major and complex city centre regeneration scheme. Although the department produced a business case, this was done after a decision to use consultants had already been taken and the invitations to tender issued. Annual costs were initially estimated at £200,000. In 2001-02, the department paid out £500,000.

<sup>4</sup> We have used DFP's reported figure of £18.6 million consultancy expenditure in 2002-03 as the basis for the extrapolation throughout our report. Paragraph 3.23, however, notes that this figure may significantly underestimate the total value of consultancy expenditure by departments, and their agencies and NDPBs.

2.10 We asked departments to comment on those consultancy projects where they had not produced the necessary business case. The principal reasons noted included:

- **inability to undertake the work in-house** - departments highlighted instances where:
  - a. they did not have the in-house resources to undertake the work;
  - b. the timescale did not permit them to do the work themselves;
  - c. the assignment required specific expertise that was unavailable in-house; or
  - d. the study required independence from the department.
- **statutory or other requirement to undertake the work** - departments pointed out that certain projects had to be undertaken because there was a statutory requirement to do so or a political imperative to produce a study;
- **senior management approval for using consultants** - in some cases, departments noted that there had been senior management approval to undertake a consultancy assignment and considered that this provided sufficient justification for proceeding;
- **disproportionate costs of, or insufficient time for, preparing a business case** - for some smaller contracts, departments indicated that the costs of preparing a business case would have been disproportionate to the value derived from the project. Departments also noted that occasionally the work had to be produced within a short timescale and there was insufficient time to prepare a business case.

2.11 All projects estimated to cost more than £10,000 must be supported by an appropriate business case and this requirement should not be overridden by senior management in departments, a point previously emphasised by the Northern Ireland Public Accounts Committee<sup>5</sup>. Equally, a statutory or other

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<sup>5</sup> Public Accounts Committee, Second Report, Session 2000-01, *Report on the Rural Development Programme*.

requirement to undertake an assignment does not obviate the need to follow the guidance and appraise whether the work should be undertaken by consultants or in-house.

- 2.12 We recommend that departments implement the guidance set out in documents such as the Northern Ireland Practical Guide to the Green Book and put in place systems, where they do not already exist, to ensure that projects estimated to cost in excess of £10,000 are supported by an appropriate business case and are properly approved.
- 2.13 We recognise that the effort put into appraisal should be proportionate to the scale of expenditure involved and consider that DFP may wish to raise the current £10,000 threshold in any new guidance they issue. We note that the recent publication of the Practical Guide addresses the issue of proportionate effort in producing business cases and provides a pro-forma template for use on smaller assignments.
- 2.14 We acknowledge that, where resources or expertise are unavailable in-house, there is a strong rationale for using external consultants. Nevertheless, business cases should formally document these reasons in order to provide a clear audit trail. Departments in such cases should also consider the potential for skills transfer to departmental staff.

## **While the majority of contracts are advertised competitively, there is still a relatively high occurrence of single point tendering**

2.15 The 1994 Efficiency Unit report found that departments were placing too much reliance on single point tendering and the National Audit Office's report on *Purchasing Professional Services* found that some 30 per cent of contracts in Great Britain were not awarded through full competitive tendering.

2.16 During the period covered by this report, DFP guidance on the use of consultants reinforced the need for departments to tender competitively for all but very small contracts:

- for short term, low cost projects costing less than £10,000, a single firm should have been invited to tender after conducting informal price testing;
- for projects costing between £10,000 and £50,000, three to four firms should normally have been invited to tender. Contracts costing £20,000 or more should have been publicly advertised;
- for projects costing between £50,000 and the EU Services Directive threshold of approximately £100,000, six to eight firms should have been asked to register expressions of interest, with a shortlist of three to four firms subsequently being asked to submit a formal tender; and
- for contracts regulated by the Services Directive, the tendering process must have complied with the requirements of the Directive.

2.17 All the consultancy projects within our sample had expenditure in excess of the £10,000 threshold and we therefore expected that all of these would have been competitively tendered. We found that:

- 35 (41 per cent) of contracts were single point tenders (9 per cent higher than found in GB by NAO) and, therefore, not advertised competitively; and
- the value of these 35 contracts was approximately £1.4 million, equivalent in value terms to 29 per cent of those reviewed.

### Case Study C

The department commissioned a study to examine the extent of differences in pig carcass quality between NI, GB and Republic of Ireland to determine their significance in relation to NI/GB price differentials.

Although the department documented the absence of in-house expertise, no formal business case was produced. The Departmental Management Board approved the £60,000 funding for the project from within existing resources.

The department did not advertise the contract by competition, because of the specialist nature of the task, but awarded it directly to one of its NDPBs.

- 2.18 Several departments outlined their rationale for using single point tendering procedures. They referred to consultants having previous experience of the department, specific expertise in the area of study or that they offered significant cost savings.
- 2.19 Although we recognise that there can be valid reasons for preferring specific consultants, the administration of public procurement is governed by key principles including the need to carry out procurement by competition unless there are convincing reasons to the contrary, to treat suppliers fairly and without unfair discrimination and to ensure that there is openness and clarity in the delivery of procurement policy.

2.20 We are therefore surprised that almost a third of contracts by value are not tendered competitively. Departments need to control this issue more tightly since competitive tendering offers the best means of ensuring value for money and avoiding the possible perception of impropriety in public procurement.

2.21 We recommend that departments should put in place management systems to promote competitive tendering. Departments should set targets to reduce the value of consultancy which is tendered non-competitively and should record the extent of single point tendering to monitor progress over time.

**There is significant variability in the quality of project control and management between individual assignments, with a number of projects experiencing considerable cost overruns and extensions to the original contract**

2.22 DFP guidance indicates that, where practicable, departments should seek tenders of a fixed or lump sum fee or a maximum fee which the consultants will undertake not to exceed. It also notes that, on some carefully selected projects, skilled purchasing staff and managers should explore the use of performance-linked fees.

2.23 Over two thirds of our sample of projects were awarded on the basis of fixed fee or capped fee contracts. Despite this, we found a large number of consultancy projects where the original contract was subsequently extended and/or where the final payments significantly exceeded the original fees agreed in the contract.

**Case Study D**

The department's original contract for this assignment was for a fixed fee of just under £20,000. The department subsequently agreed to three extensions to the contract. These increased the consultancy assignment by 115 days and the daily rate by 20 per cent. As a result, the overall cost to the department was £140,000 - seven times greater than the original contract.

**Case Study E**

This contract was for a capped fee of £79,000 plus £7,000 travel and subsistence per month. The consultant subsequently requested an increase in the capped fee because of significant contractor delays and increased work. As a result of negotiations, the department agreed to pay the consultant an additional £53,000 for completed work and an estimated £20-30,000 up to completion. This was considerably less than the sum requested by the consultant and was approved by DFP, Government Purchasing Agency and the Departmental Solicitors' Office. The extensions to this contract amounted to over £75,000, resulting in a total cost of almost double the original capped fee.

- 2.24 In total, we identified 38 contracts (45 per cent of our sample) where the final payments exceeded the original contract. The total additional cost of these payments was approximately £2.7 million, compared with their original contracted cost of around £4.2 million. The value of these extensions and/or cost overruns therefore represents an increase of some 65 per cent over their original cost. Of these 38 extensions, six projects' initial contract values were below the £10,000 business case threshold and six were below the £50,000 limit which requires Ministerial approval under the DFP guidance. All 12 subsequently exceeded the respective thresholds.
- 2.25 In our view, large-scale increases of this nature raise doubts as to the standard of project appraisal, management and control. Repeated contract extensions are often non-competitive in nature and can therefore hinder the achievement of value for money, a point previously raised at the Public Accounts Committee<sup>6</sup>.

<sup>6</sup> Committee of Public Accounts, Fiftieth Report, Session 1992-1993, *Northern Ireland Education and Library Boards: Information Technology Strategy*.

2.26 Departments need to pro-actively manage consultancy assignments. We consider that departments should work with the Central Procurement Directorate in DFP to control the number of contract extensions and the value of fee increases. Commensurate with the scale of expenditure involved, departments should consider for each contract:

- establishing a project board and designating a project manager;
- agreeing interim milestones, targets and tolerances; and
- introducing an early scoping phase, together with an associated break point.

**We found limited evidence that departments are formally evaluating the work of consultants and consequently it is difficult for them to demonstrate value for money from consultancy spend**

2.27 The guidance requires project managers to complete an assessment report for each consultancy project reviewing, among other things:

- the extent to which the assignment has delivered its objectives;
- the associated costs and benefits of the assignment;
- the quality of analysis and the recommendations contained in the consultant's report; and
- any benefits (or losses) accruing from the implementation of the project's findings/recommendations.

2.28 We found very little evidence that departments are following the guidance on post-project assessment. From our sample of 85 projects, we found only 10 which

had complied with the requirement to complete an assessment report. We are particularly concerned that, in some individual cases, significant expenditure has been incurred without any formal review process taking place and being documented on file. We also found limited evidence as to whether consultants' recommendations and advice were accepted and implemented.

### Case Study F

The department commissioned consultants to undertake a review of the voice and data communications network within its area of responsibility. The original contract was for £75,000 and, after extensions for additional work, total final expenditure on the project was £105,441.

As part of the review, the consultants had to provide call logging on 30 sites. In the event, the consultants were only able to undertake call logging on 16 sites.

No formal post-completion assessment of the project has been undertaken by the department.

- 2.29 Within our sample, £4.4 million (93 per cent) of consultancy expenditure was paid without being subject to any documented assessment procedure to assess the benefits of the work, whether it met its objectives and whether there were any lessons for future projects. Extrapolated for the total annual expenditure on consultancy across the NICS, this indicates that departments may be incurring expenditure of £17 million a year which has no documentary evidence of formal review and assessment.
- 2.30 In response to our queries on post-completion assessment reports, departments often replied that their acceptance of the consultants' work, together with full and final payment of the contract, were evidence that the department accepted that the project had been completed satisfactorily. Departments also noted that, while formal evaluations had not been undertaken, often the consultants' work was monitored and signed off by a steering group or was subject to other forms of scrutiny and that this represented an appropriate review mechanism.

2.31 We recognise that departments, satisfied with consultants' performance, agree to sign off the contract and pay in full. In our view, however, informal assessment of this nature is not sufficient and does not adequately meet the requirements stipulated in the guidance. Even where projects are generally satisfactory, there may be lessons to be learnt for the future. In any event, it is important for accountability purposes that there is a formal and documented review which assesses the performance of the consultants against pre-determined criteria (for example identifying their strengths and weaknesses, assessing their capability for undertaking particular types of project and recording the extent to which recommendations have been accepted). In the absence of formal reviews of this nature, it is not possible for departments to demonstrate that they have achieved value for money in their use of consultants.

2.32 In our view it is undesirable that such a large quantum of government expenditure is incurred without being subject to a formal post-completion assessment process. DFP guidance requires departments to put in place arrangements to ensure that projects undergo appropriate formal post-competition assessment and that the results of these assessments are disseminated widely. We recommend that departments adhere to this guidance more stringently.

2.33 DFP informed us that its Central Procurement Directorate (CPD) has piloted a 'Contract Management Workshop' for clients and will be rolling this out over the next couple of years to improve the standard of contract management skills across the NICS. It also noted that the recently-published Practical Guide (see paragraph 2.6) provides detailed advice on how to conduct post-project evaluation. We welcome these developments as they will assist departments in undertaking structured and systematic post-project evaluations.

- 2.34 A number of departments indicated to us that, while they had not yet undertaken an assessment (either because the project was only recently completed or they had not had an opportunity because of resource pressures), they did intend to do so in the near future. We welcome these commitments and expect such assessments to be completed on a timely basis and to conform fully with best practice guidance.
- 2.35 Because of the lack of post-project assessment, there is also limited evidence whether departments have implemented the findings of consultants' reports or have taken on board their advice. We recommend that implementation managers are appointed for each major consultancy project and that a formal action plan is established and implemented on completion of the consultancy assignment.

### **More generally, there is scope for departments to communicate and to collaborate more effectively**

- 2.36 A recurrent theme of best practice in the procurement of professional services is the need for departments to identify opportunities to collaborate and to harness their collective purchasing power to get better deals. To do this effectively, departments need to share information and communicate openly.
- 2.37 During the review of our case studies we identified only three consultancy projects purchased jointly by departments. We did not find any evidence that departments were systematically sharing information on proposed projects, fee rates, suppliers' performance or lessons learnt. Departments tended to consider each consultancy assignment on a stand-alone basis as it arose, with limited checking in advance with other departments if similar work had already been undertaken or if joint-purchase was possible. The failure to systematically share information on proposed projects, fees, suppliers' performance or lessons learnt means that departments are not exercising the role of an intelligent purchaser in relation to consultancy.

- 2.38 DFP told us that its Central Procurement Directorate (CPD) seeks opportunities for greater collaboration across the NICS through the use of Framework Agreements. This approach emphasises the importance of departments using CPD services rather than acting independently and enables departments to exercise the role of intelligent purchaser. We welcome these developments and recognise that such a mechanism should improve networking and collaboration in the future.

### Case Study G

The department commissioned an external IT consultant to produce a departmental e-business strategy. Although all departments had been requested to undertake similar studies, no arrangements were made to commission a NICS-wide collaborative study. In the absence of central arrangements, the department commissioned its own study.

Originally awarded for a sum of £30,000, as the project progressed, the department agreed substantial changes to the original specification and a number of extensions. Total payments to the contractor amounted to £183,000.

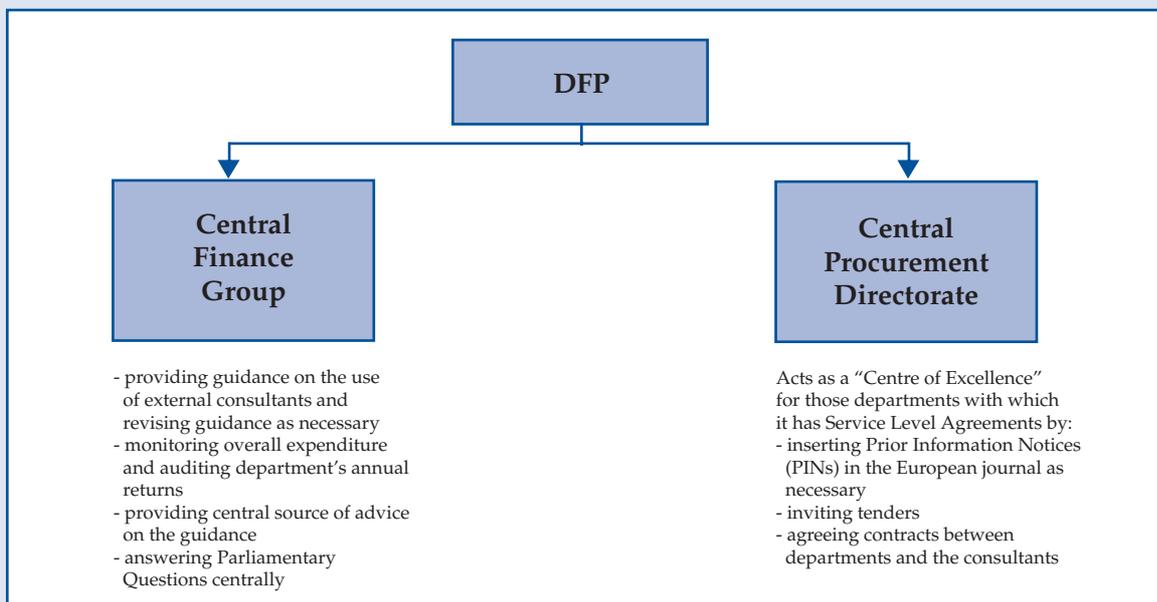
- 2.39 We consider that there is scope for departments to enhance their collaborative efforts and to develop more formal communication networks. We recommend that departments network and communicate more effectively to assess the opportunities for collaborative purchasing.

# Part 3

## The Role of DFP in the Use of Consultants

3.1 The guidance specifies two separate roles for DFP. Central Finance Group has an advisory, monitoring and auditing role in relation to consultancy. The former Government Purchasing Service (GPS), later the Government Purchasing Agency and now subsumed within the Central Procurement Directorate in DFP, has responsibility to act as a Centre of Excellence to departments with which it has a Service Level Agreement. These respective roles are illustrated below (Figure 4).

**Figure 4: The role of DFP as specified in its guidance**



Source: DFP

- 3.2 In 2002, following a review of public sector procurement, the Northern Ireland Executive agreed to a revised public procurement policy and developed new structures for procurement (see paragraph 1.13). It established a Procurement Board, comprising all departmental Accounting Officers, which reports to the DFP Minister. It also created the Central Procurement Directorate (CPD) within DFP to act as a core professional procurement body. DFP considers that, as a result of these new arrangements, NICS departments should use CPD, as the designated 'centre of expertise', to award all relevant service contracts including consultancy.
- 3.3 This section of our report examines the extent to which DFP fulfils its respective roles. We consider:
- the extent to which DFP's Central Procurement Directorate is being used by departments for tendering and contract management processes (the role of the former GPS);
  - the extent to which the guidance and advice available from DFP is consistent with current best practice on procurement;
  - the manner in which DFP undertakes its monitoring and audit of overall NICS expenditure on consultancy; and
  - the nature and consistency of the information used by DFP to answer Assembly/Parliamentary Questions (PQs).

### **The Central Procurement Directorate can play an important role in the purchasing of consultancy services**

- 3.4 The Central Procurement Directorate (CPD) was created on 1 April 2002 following a review of public procurement in Northern Ireland. CPD is a professional body which provides expertise and advice and, where appropriate, directly procures services in respect of strategic requirements across the Northern Ireland public sector.

- 3.5 The former Government Purchasing Agency developed a Framework Agreement with external consultancy suppliers in line with EU Procurement Regulations. This Agreement provides a list of all consultancy providers interested in working with NI departments, agencies and NDPBs and is available for use by all NI public sector organisations.
- 3.6 Protocol arrangements govern the use of the Framework. Departments seeking to employ a consultant from the Framework must provide a specification to all consultants who expressed interest in the area involved. Consultants provide details of the estimated completion date together with an estimate of the total number of days required to produce the specified outputs. Fees are charged in line with those quoted in the Framework Agreement. The tender panel select the most economically advantageous bid.
- 3.7 We consider that appropriate use of the Framework offers departments the following benefits:
- assurance of compliance with EU Regulations;
  - reduced internal costs as a result of streamlining purchasing processes; and
  - achievement of competitive rates secured by CPD using the collaborative buying power of NI public sector organisations.
- 3.8 CPD estimates that during 2001-02, departments' use of the Framework secured savings of £65,000 per annum on internal processing costs. In addition, CPD has calculated that fees offered in the Framework represent an average saving of 14.5 per cent on those obtained through traditional procurement methods. Given this, we were surprised to note that only £4 million of the £16.4 million spent on consultancy services during 2001-02 was let under the Framework. Based on this, NIAO estimates that departments failed to secure savings in excess of £2 million.

3.9 Public sector use of the Framework Agreement is limited. In our view its greater use would not only ensure compliance with European Procurement law but would also yield savings through the exercise of collaborative buying power. We estimate that full use of the Agreement during 2002-03 could have resulted in additional savings across departments in excess of £2 million. We recommend that departments are reminded of the benefits of the Framework and are encouraged to make fuller use of it. Increased usage should be measured against pre-set targets and financial savings should be quantified. To increase departmental use of the Framework Agreement, it is important that CPD assesses the low usage to date. CPD should therefore review the workings of the Framework Agreement periodically, with both departments and the consultancy industry, in an effort to raise the usefulness of the Framework to all parties.

**DFP's guidance on the use of consultants addresses the concerns raised by the Great Britain Efficiency Unit report. However, given recent developments, there is scope to update the guidance in line with current best practice**

3.10 A range of guidance is available on the procurement and management of consultants. In order to assess the continued applicability of DPS(DFP) 2/95, we compared its content against the nine critical success factors outlined in the 1994 Great Britain Efficiency Unit Report and against more recent publications from NAO and the Office of Government Commerce (OGC). Specifically, we used as benchmarks:

- *Purchasing Professional Services* - NAO's 2001 report provides a checklist of key questions for departments to consider to promote value for money in their expenditure on professional services; and

- *Delivering world-class consultancy services to the public sector - A statement of best practice* - published jointly by OGC, the Management Consultancy Association (MCA) and the Institute of Management Consultancy (IMC) in 1999 and updated in November 2002. This statement supports best working practice between departments and management consultants and serves as a model which these parties regard as world-class. It encourages departmental compliance so that all parties to the contract are treated fairly and responsibilities are allocated appropriately.

## **DFP's guidance addresses the concerns raised by the 1994 GB Efficiency Unit report**

3.11 DFP's guidance was issued in response to the findings of the 1994 GB Efficiency Unit report and addresses the main issues identified in that report. The main elements of good practice which the guidance covers include the designation of a Centre of Excellence (the former GPS) for tendering and contract management issues. It also outlines the need for departments to:

- specify in advance the contribution consultants can make and whether they are really necessary;
- avoid overlapping or duplication of consultancy work by co-ordinating with each other to check for similar types of studies;
- appoint an accountable implementation action manager for each consultancy project;
- prepare business cases to ensure that there is a clear need to use consultants and their benefits outweigh the costs involved;
- put in place arrangements to ensure skills transfer from consultants to in-house staff; and
- formally review the performance of consultants to determine any lessons learnt.

## There is scope for DFP to update its guidance to better meet current best practice

3.12 We recognise that the guidance appropriately addresses the principal concerns raised in the Efficiency Unit report and addresses a large number of good practice issues in the use of consultants. However, subsequent developments in this area provide an opportunity for DFP to update and refine its guidance. Key points emphasised by the NAO and OGC/MCA/IMC reports, but not explicit in the DFP guidance, are the need for departments to:

- **improve the quality of management information** - to hold up-to-date, reliable and comprehensive information on prices, suppliers, nature of services purchased and quality of suppliers' performance so that departments can determine the value they are getting by benchmarking fees paid and evaluating outcomes;
- **harness their collective purchasing power** - to exercise their considerable buying power to negotiate better deals and obtain improved value for money from co-ordinated purchasing;
- **develop communication networks** - to provide opportunities for staff buying consultancy services to talk to their counterparts in other departments and share experiences and good practice. Existing NICS cross-departmental groups with specific interests (for example in areas such as human resources, IT and audit) should be encouraged to more formally share the consultancy intelligence in their related fields and thereby improve communication flows;
- **specify outputs and benefits at commencement** - to issue terms of reference and tender invitations in a way that enables suppliers to propose the best value for money solutions, adopting innovative approaches where appropriate. A specification in terms of outputs would allow potential bidders the freedom to determine the most cost-effective approach to achieve the required outputs;

- **manage deliverables, expectations and risk** - to confirm on appointment the key elements of the way the project will be carried out (to include a project plan; deliverables and expectations; and a risk register). This ensures that both parties to the contract are clear on their requirements and helps identify possible obstacles to successful completion;
- **undertake a joint review of the project with the consultant** - to include input from both parties on what has been gained from the experience and identify areas for improvement in future projects; and
- **ensure staff awareness of good practice and of the tangible benefits it can achieve** - to reiterate good practice guidance and to circulate actual benefits/savings secured by individual departments through adoption of the recommended procedures.

3.13 In discussions with departments we noted a lack of awareness, at operational level, of DFP's 1995 guidance. Departments' Finance Branches have an important role in ensuring compliance with the guidance. But, in addition, DFP should consider issuing updated guidance, supplemented by periodic reminders to take account of emerging best practice. The guidance should reflect the work undertaken by NAO and OGC/MCA/IMC (as noted above) and prominence should be given to the issues noted in paragraph 3.12 above.

3.14 DFP indicated to us that the new procurement policy developments (see paragraph 3.2) will address many of these best practice issues. The Procurement Board has already established a Procurement Practitioners Group to ensure improved communication networks. In addition, DFP considers that the policy will lead to more centralised purchasing and increased use of CPD's Framework Agreement. CPD's current database on NICS suppliers of consultancy services, which is already available to all departments, may also be extended. We agree that developments of this nature will harness the collective purchasing power of

departments and ensure improved specification, management and review of consultancy projects.

### **While DFP maintains details of consultancy expenditure across the NICS as required by its guidance, the information it collates is variable and limited in nature. This restricts DFP's ability to adequately monitor and audit consultancy expenditure within departments**

- 3.15 DPS (DFP) 2/95 places an onus on departments, when submitting annual consultancy returns to DFP, to ensure that details are complete and accurate and that information is disclosed in the format requested. DFP is then responsible for:
- *“monitoring overall expenditure on consultancy services across the NICS”*; and
  - *“undertaking an audit of each department’s annual returns to check that the system is working as intended”*.
- 3.16 To meet these requirements, DFP maintains a central database of consultancy expenditure by departments. The database categorises consultancy expenditure into seven main headings (on areas such as management advice, financial advice, human resources and internal audit) and twenty three sub-headings. It identifies the name of the consultant awarded the contract, the in-year expenditure and the subject of the consultancy. We noted, however, that departments did not necessarily complete their returns in full. For example, two departments provided only summary figures for the broad categories of expenditure but provided no detail on which consultants were used, how many projects were undertaken, the amount paid under each contract in-year or the subject of the consultancy. Full returns, commencing in the 2002-03 financial year, are now submitted by the two departments concerned. In our view, the variable nature of the database for each department limits the extent to which DFP can use its database as a management information tool to monitor expenditure.

- 3.17 The guidance does not provide specific details of DFP responsibilities. Part 2 of our report shows, however, that departments are not complying with the guidance on the use of consultants. We consider that information supplied by departments should, as a minimum, be sufficient to enable DFP to confirm that the core tenets of its guidance are being adhered to and allow it to monitor compliance - by checking that departments have prepared business cases, tendered competitively and undertaken post-project assessment. In addition, it would be useful if the database enabled DFP to analyse overall levels and trends in expenditure; identify key suppliers; monitor fee rates; highlight the potential for collaborative projects and ensure no duplication of activities; and gauge the achievement of specified outputs.
- 3.18 We examined DFP's database over the period from 1999-00 to 2001-02 and found that it contained only basic expenditure data. Information of the nature outlined above in paragraph 3.17 was not provided and we concluded that DFP is unable to adequately monitor departments' consultancy expenditure. Departmental disclosures are insufficient to permit assessment of departmental compliance with the guidance and DFP was unable to provide evidence of its checks on the completeness or accuracy of data capture by departments.

3.19 We recommend that DFP's monitoring and audit responsibilities in DPS (DFP) 2/95 should be reviewed and clearly defined. We consider that revised guidance should make provision for DFP to undertake the type of analysis outlined in paragraph 3.17 above. DFP should develop its database by introducing a small number of additional information fields to enable it to capture the requisite data. This would allow DFP to produce accurate, comprehensive and relevant management information on issues such as:

- the value of overall consultancy input and that of individual suppliers;
- the proportion of contracts which are competitively tendered;
- the full-life cost of individual assignments;
- the performance of suppliers; and
- the scope for collaborative projects to reduce duplication.

3.20 Enhanced information of this nature would provide assurance to DFP that its guidance on the preparation of business cases, competitive tendering and assessment reports is being followed appropriately by departments.

3.21 We also recommend that DFP makes its database openly available to all other departments. This would allow departments to check key variables such as average fee rates, the performance of individual suppliers and the existence of previous work undertaken in similar areas by different departments.

## DFP uses its database to respond to Parliamentary Questions and it is important that it is as complete and accurate as possible

3.22 DFP uses departmental annual returns to answer relevant Parliamentary Questions and indicates that spend by Agencies and NDPBs is included in the figures.

3.23 During our study we identified a number of areas where the accuracy and completeness needs to be improved. These included:

- **Omission of Agency and Non-Departmental Public Body (NDPB) expenditure** - we reviewed the accounts of two DRD Agencies and two NDPBs to check whether consultancy expenditure was being accurately reported. We found that spending by Agencies and NDPBs is not reported consistently in departmental returns.

In accordance with DFP guidance, the DRD return to DFP did not include the cost of consultants undertaking a feasibility, design or supervisory role in its two Agencies, Water Service and Roads Service. These two Agencies disclosed over £19 million of consultancy expenditure in their audited Annual Accounts whereas the Department in total noted only £2.5 million consultancy spending in its annual return to DFP.

DE does not include expenditure for the Education and Library Boards (ELBs) which are classified as NDPBs. In 2001-02, ELB expenditure on consultants was some £1.5 million.

DHSSPS does not include expenditure by the Fire Authority of Northern Ireland, a NDPB whose consultancy expenditure in 2001-02 was £117,500.

- **Overstatement of expenditure** - in the course of our case studies, we identified a number of factual mistakes in DFP's database which led to expenditure being overstated by some £900,000.

DFP incorrectly included expenditure on DETI's 2001-02 return, which had not actually been incurred until 2002-03. As a result, expenditure in 2001-02 was overstated by £800,000.

Accountancy services costing almost £60,000 were contracted by an Agency of DFP. This expenditure was correctly recorded on the DFP return for that year but was also included on the annual return from DOE.

Similarly, a study commissioned by DHSSPS costing almost £30,000 was disclosed on the return for that department and also on the DE return.

DE and DSD both disclosed details of the same consultancy assignment costing almost £15,000 on their returns to DFP.

- **Inconsistent treatment of certain types of consultancy-related spending** - there is confusion across departments on the exact description of consultancy which has resulted in anomalies in the returns. Although DFP's guidance indicates that staff substitution, contracted services and research do not count as external consultancy, departments appear unclear on these definitions and practices vary throughout the NICS - we found that several assignments of this nature, totalling over £400,000, were included.

DRD included a contract amount of just under £175,000 on its consultancy return that related to staff replacement.

DCAL included in-year expenditure of almost £100,000 which related to research.

DHSSPS included a £50,000 per annum assignment for contracted services to support an IT system and a further £100,000 for a project which they informed us was not consultancy.

- 3.24 In our view it is important that, where consultants are being used to substitute for civil service staff, the expenditure should be classified as administrative costs. Otherwise there could be a perverse incentive to buy-in consultancy services of this nature.
- 3.25 In an attempt to verify the overall accuracy of the database we compared 2001-02 annual returns for three departments against their expenditure records. However, we were unable to extract appropriate information because of how consultancy expenditure was recorded. Based on this, we consider that it is unlikely that departments have appropriate systems in place to allow a cross-check to ensure that their returns to DFP match actual expenditure on consultants.
- 3.26 Because the DFP database is used to answer certain PQs, it is important that it is consistent, comprehensive and clearly-defined. Our examination indicates that the information provided by departments to DFP needs to be improved to meet the standards required.

- 3.27 Clearly the onus is on departments to provide DFP with complete and accurate information. However we recommend that DFP advises departments of the need to ensure that systems demonstrate the accuracy of annual returns and that DFP takes steps to confirm that such systems are operating effectively.
- 3.28 Currently, the guidance on the use of consultants excludes staff substitution and research from the definition of external consultancy. However we note that several departments are including these assignments in their returns to DFP. In view of the differences in reporting by departments, we believe that DFP should revisit its definition of consultancy to determine precisely what it should be recording. In light of this, it should develop clear and simple definitions of consultancy to ensure complete and accurate reporting by departments.
- 3.29 We also note that current returns do not include all Agencies and NDPBs. We have identified at least £19 million consultancy expenditure in 2001-02 incurred by two DRD Agencies and two NDPBs which was not disclosed. In future, departmental returns should separately identify expenditure by the core department, its Agencies and its NDPBs. In our view, this would enable DFP to give greater assurance that the expenditure information provided to Parliament is comprehensive, consistent and accurate.



# Appendices

## **The Government's Use of External Consultants - Great Britain Efficiency Unit Scrutiny 1994**

### **Critical Success Factors**

The 1994 Efficiency Unit Scrutiny reported that the cost-effective use of consultants depended on applying all the following nine critical success factors:

- seeing consultants as a potentially valuable, if costly, resource;
- using them only on matters of real importance to the organisation;
- using them only where management is committed to bringing about change;
- being clear why they are being used, and identifying the work that needs to be done;
- making sure that the problem cannot be solved in-house or in some other less expensive way;
- selecting the right individuals, at the right price;
- managing the consultants effectively, and working closely with them;
- implementing the results of their work; and
- assessing the value-for-money derived, and implementing any lessons learnt, at the end of the assignment.

## **Sample Selection**

DFP maintains a database of consultancy expenditure incurred by each NICS department. The information, which is collated on an annual basis, is 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 three year period from 1999-2000 to 2001-02 (2002-03 consultancy expenditure details were not available) to cover all departments and to include a range of small and large contracts.

We excluded any contracts where expenditure did not exceed £10,000 because, for these contracts, departments are not required to complete formal business cases or carry out competitive tendering. We examined a number of contracts for each department covering the three years. Where possible, the sample for each department included a number of contracts below £50,000 and a number above that threshold. In total, we selected 48 contracts where in-year expenditure was below £50,000 and 52 contracts where in-year expenditure exceeded £50,000.

### **Coverage across Departments**

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

## USE OF CONSULTANTS

Department	Sample Size
Department of Enterprise, Trade and Investment	11
Department for Regional Development	12
Department of Culture, Arts and Leisure	10
Department of Education	9
Department of Health, Social Services and Public Safety	10
Department for Social Development	9
Department of the Environment	9
Department for Employment and Learning	8
Department of Agriculture and Rural Development	8
Department of Finance and Personnel	12
Office of the First Minister and Deputy First Minister <sup>1</sup>	2
<b>TOTAL</b>	<b>100</b>

1 Only 2001-02 available for this department

### Contracts Examined

Within our sample of 100 contracts, 15 were excluded from our analysis for a number of reasons such as files being lost or projects being incorrectly included on the database. A summary of these is provided below.

Reason for exclusion	Number in Category	Value (£s)
Papers lost	5	245,600
Cases incorrectly recorded as consultancy (e.g. research, contractor, grant payments)	6	445,900
Duplicate cases	3	100,500
Expenditure not yet incurred and therefore incorrectly included on the database	1	280,000
<b>Total</b>	<b>15</b>	<b>1,072,000</b>

### **Proportion of expenditure covered by sample**

For the remaining 85 projects we tested compliance with DFP guidance. The in-year expenditure of these 85 projects amounted to £4.7 million. The total average annual expenditure on consultants over the last three years, as disclosed on the DFP database, is £16.4 million. Our case studies therefore accounted for 29 per cent of the average annual departmental expenditure on consultants over the three years from which we sampled.

## Case Study Illustrations

Overall, we found that departments were not complying in full with DFP's guidance on the use of consultants. Non-compliance, for a number of these cases, tended to be compound in nature, including failures against more than one component of the guidance.

We consider that the combined failure to prepare a business case, tender competitively, manage contracts and/or undertake post-completion assessment, makes it difficult for departments to demonstrate the achievement of value for money.

The case studies below outline nine of these cases.

### Case Study A

<b>Expenditure to Date</b>	£78,800
<b>Background</b>	The department commissioned external consultants to undertake a major policy planning exercise.
<b>Business Case</b>	No formal business case was undertaken.
<b>Tendering Procedures</b>	The contract was awarded without a competitive tender on the basis of the consultants' previous experience on the project.
<b>Contract Management</b>	The consultants' initial estimate for the project was £48,300. The department subsequently approved a series of extensions resulting in a revised approved cost of £62,450. The final cost of the project was £78,800. No DFP/Ministerial approval was sought despite exceeding the £50,000 threshold in the guidance.
<b>Post-completion Assessment</b>	No post-completion assessment was undertaken.

### Case Study B

<b>Expenditure to Date</b>	£750,000
<b>Background</b>	The department commissioned the services of an external legal consultant to provide advice on a major and complex city centre regeneration and development scheme.
<b>Business Case</b>	Although the department produced a business case, the decision to use consultants and the invitations to tender were issued prior to its completion.
<b>Tendering Procedures</b>	The competition was organised by the Departmental Solicitors Office who invited eight firms to tender
<b>Contract Management</b>	Costs were initially estimated by the department at £50,000 per quarter. To date, total payments have amounted to more than £750,000. In 2001-02, the department paid out almost £500,000 under this contract against the estimated £200,000.
<b>Post-completion Assessment</b>	This project is still ongoing and therefore no post-completion assessment has yet been carried out.

### Case Study C

<b>Expenditure to Date</b>	£59,800
<b>Background</b>	The department commissioned a study to examine the extent of differences in pig carcass quality between NI/Republic of Ireland/and GB pigs, to determine their significance in relation to NI/GB price differentials and to identify options to address this issue.
<b>Business Case</b>	Although the department documented the absence of in-house expertise, no formal business case was produced. The Departmental Management Board considered the proposal and approved funding for the project within existing resources.
<b>Tendering Procedures</b>	The department told us that it did not advertise the contract because of the specialised nature of the task and the short time available. The contract was awarded directly to a departmental NDPB. A former departmental Principal Scientific Officer involved in pig production research was engaged by the NDPB (following approval from the department) to lead the team undertaking the study. The study team was drawn from staff within the NDPB and this represented over 75 per cent of the cost of the project.
<b>Contract Management</b>	The contract was capped at £60,000 and was delivered within this amount.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the department. The Report's conclusions were made public at an industry meeting in March 2002, and an industry seminar to discuss its findings was held in September, having been postponed due to the author's illness.

### Case Study D

<b>Expenditure to Date</b>	£117,400
<b>Background</b>	As part of a major policy review, the review team commissioned consultants to facilitate the process.
<b>Business Case</b>	No business case was prepared for the assignment.
<b>Tendering Procedures</b>	The contract was awarded competitively with four firms submitting bids.
<b>Contract Management</b>	The original contract was for a fixed fee of just under £20,000. The department agreed to three contract extensions which increased the consultancy assignment by 115 days, the daily rate by 20 per cent and the overall cost to £140,000, seven times greater than the original contract.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the department.

Case Study E	
<b>Expenditure to Date</b>	£231,000
<b>Background</b>	The department commissioned legal advisers to act on its behalf on a Private Finance Initiative project within one of its Agencies.
<b>Business Case</b>	The department prepared a business case to establish the need for legal services, estimating consultancy costs of £215,000 and in-house costs of £150,000. DFP and Ministerial approval was secured.
<b>Tendering Procedures</b>	The Departmental Solicitors Office (DSO) managed the tender process. It invited 5 firms, assessed them against pre-established weighting and scoring criteria and awarded the contract to the bidder with the highest overall score.
<b>Contract Management</b>	This contract was for a capped fee of £79,000 plus £7,000 travel and subsistence per month. Due to contractor delays and resultant increased work, the consultant subsequently requested a substantial increase in the capped fee figure. Following lengthy negotiations, and approval from DFP, Government Purchasing Agency and DSO, the department secured a significant reduction in the level of additional fees sought by the consultant. Total payments to the consultant were, however, almost double the original, capped fee.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the department. The department told us that post-contract discussions were held with the advisers to consider the conduct of the negotiations and ensure lessons were learned on both sides.

### Case Study F

<b>Expenditure to Date</b>	£105,000
<b>Background</b>	The department commissioned consultants to undertake a review of the voice and data communications network within its area of responsibility.
<b>Business Case</b>	The department did not produce a business case.
<b>Tendering Procedures</b>	The department purchased the consultancy services from a specialist Government Agency specialising in information technology. It did not advertise competitively.
<b>Contract Management</b>	The original cost estimate was £75,000 but agreed extensions raised the final expenditure to £105,000. An element of the work was sub-contracted and required call logging at 30 sites for a fee of £21,000. Only 16 sites were completed and the £21,000 fee was paid in full.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the department.

### Case Study G

<b>Expenditure to Date</b>	£183,000
<b>Background</b>	The department commissioned an external IT consultancy firm to produce an e-business strategy for the department.
<b>Business Case</b>	No formal business case was undertaken. Although all departments had been requested to undertake similar studies, no central arrangements were made to commission a collaborative NICS-wide study. In the absence of central arrangements, the department commissioned its own study.
<b>Tendering Procedures</b>	The department used CPD's Framework Agreement to invite bids from five contractors.
<b>Contract Management</b>	The contract was awarded for an estimated sum of £30,000. As the project progressed, the consultants and department agreed substantial change to the original specification and agreed extensions. Total payments to the contractor amounted to £183,000.
<b>Post-completion Assessment</b>	The department did not formally assess the performance of the consultant. A post-completion review of the e-business strategy was initiated at the mid-point of its implementation.

**Case Study H**

<b>Expenditure to Date</b>	£314,800
<b>Background</b>	The department appointed consultants to act as financial advisers on the options for the future of Belfast Port.
<b>Business Case</b>	A business case was completed prior to the appointment of consultants.
<b>Tendering Procedures</b>	The contract was awarded competitively.
<b>Contract Management</b>	The overall contract price was capped at £130,000 plus £10,000 expenses while the final cost of the assignment was £314,800. The increased costs reflected extensive additional work required during the lifetime of the project by the newly-formed devolved administration. This additional work included an extension to the consultation period, the establishment of a NI Assembly Ad-Hoc Committee to consider the proposals, a full assessment of all the options for the future of the Port, subsequent evaluation by the Assembly DRD Committee and a full Economic Appraisal of the project. Following consideration of all the options, a ministerial decision was taken in February 2001 for Belfast to retain Trust Port status with extended commercial powers.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the department.

### Case Study I

<b>Expenditure to Date</b>	£75,000
<b>Background</b>	Following the resignation of its accountant, the Agency appointed a consultant to complete the production of a fully-audited account for laying before Parliament prior to the summer recess.
<b>Business Case</b>	No formal business case was undertaken, although the Agency documented that other options (such as the use of a recruitment agency, GPA's call-off contract, public advertising and assistance from the core department) were unsuitable because they would involve considerable delay.
<b>Tendering Procedures</b>	The Agency did not advertise competitively, but appointed a consultant who had worked for them before.
<b>Contract Management</b>	The original contract was for a period of 26 weeks at a total cost of £32,500. The contract was subsequently extended on two occasions and the consultant received £75,000 in total, twice the original contract fee.
<b>Post-completion Assessment</b>	No post-completion assessment was carried out by the Agency.

# List of NIAO Reports

<b>Title</b>	<b>NIA/HC No.</b>	<b>Date Published</b>
<b>2003</b>		
The Sheep Annual Premium Scheme	NIA 75/02	6 February 2003
The PFI Contract for the Education and Library Board's New Computerised Accounting System	NIA99/02	20 March 2003
Areas of Special Scientific Interest	NIA103/02	27 March 2003
Financial Auditing and Reporting: 2001/02	NIA 107/02	2 April 2003
The Use of Operating Theatres in the Northern Health and Personal Social Services	NIA111/02	10 April 2003
Investigation of Suspected Fraud in the Water Service	HC 735	26 June 2003
Management of Industrial Sickness Absence	HC 736	1 July 2003
Encouraging Take-Up of Benefits by Pensioners	HC 737	3 July 2003
<b>2004</b>		
Navan Centre	HC 204	29 January 2004
The Private Finance Initiative: A Review of the Funding and Management of Three Projects in the Health Sector	HC 205	5 February 2004
De Lorean: The Recovery of Public Funds	HC 287	12 February 2004
Local Management of Schools	HC 297	19 February 2004
The Management of Surplus Land and Property in the Health Estate	HC 298	26 February 2004
Recoupment of Drainage Infrastructure Costs	HC 614	8 June 2004





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