
New South Wales Auditor-General's Report

Performance Audit

Contingent workforce: procurement and management

Department of Education, Transport for NSW, Department of Industry



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Contingent workforce procurement and management: Department of Education, Transport for NSW, Department of Industry.**

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford
Auditor-General
27 April 2017

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Executive summary

NSW Government agencies use contingent labour to help deliver services to the community. The NSW Public Service Commission (PSC) defines contingent labour as people employed by a recruitment agency and hired by government agencies to provide labour or services. Agencies use contingent labour to fill a gap in skills or capability, for example, to fill a position while a staff member is on leave or where specialist knowledge may be needed on a short-term basis. The PSC estimated that in 2016 the contingent workforce represented 2.3 per cent of the public sector workforce, equivalent to 7,571 full-time employees.

The PSC recommends that contingent labour only be used when it is the most efficient and effective option available to respond to an agency's business needs. It also recommends that agencies' use of contingent labour be informed by workforce planning.

Government spending on contingent labour has increased significantly over the last five years, from \$503 million in 2011–12 to \$1.1 billion in 2015–16. To reduce spend in this area, the NSW Government has introduced the Contingent Workforce Renewal Strategy, overseen by NSW Procurement. The Strategy aims to achieve greater efficiency and effectiveness in the use of contingent labour. It has four pillars:

- prequalification scheme – a list of approved contingent labour suppliers
- vendor management system – an information system to manage contingent workers
- managed service provider – a recruitment agency broker
- contractor management organisations – organisations that manage a contingent labour database, which agencies can source labour from.

The prequalification scheme is mandatory for public sector agencies. Agencies are progressively rolling out the other pillars. The vendor management system and managed service provider are together called 'Contractor Central'.

Within the context of sector reform aimed at promoting efficiency and effectiveness, the objective of this audit is to assess whether agencies' approach to purchasing and managing their contingent workforce meets business needs and delivers value for money. In making this assessment, we reviewed three agencies each at a different stage of the reform:

- Department of Education (Education) – Contractor Central introduced in August 2015
- Department of Industry (Industry) – Contractor Central introduced in November 2016, after our review
- Transport for NSW (Transport) – Contractor Central not in place.

Conclusion

None of the three agencies we reviewed were able to demonstrate that contingent labour is the best resourcing strategy to meet their agencies' business needs or delivers value for money. There are three reasons for this. First, agencies' use of contingent labour was not informed by workforce planning at an agency level, with limited work undertaken in this area. Second, two of the three agencies have limited oversight of their contingent workforce. Information is not reliable or accurate, reports are onerous to produce, and there is limited reporting to the agency's executive. Finally, none of the agencies routinely monitor and centrally document the performance of contingent workers to ensure services are delivered as planned. Together, these factors make it difficult for agencies to ensure contingent labour is engaged only when needed, at reasonable rates, and delivers quality services.

Some of these issues will be addressed by Contractor Central, which had only been introduced at Education at the time of our review. The new software program enables staff to easily obtain real-time reports on its contingent workforce. The recruitment broker also has the potential to improve value through better negotiation and benchmarking of pay rates. However, Contractor Central will only address some of the issues highlighted above. Better workforce planning and performance monitoring are needed to ensure an agencies' workforce, including contingent workers, meets its business needs and represents value for money.

The use of contingent labour neither informs nor is informed by agency level workforce plans

None of the three agencies we reviewed had an agency level workforce plan in place. Agencies could not demonstrate that they had analysed their use of contingent labour at an agency level, including how it is being used to address any skills gaps. An agency's executive is responsible for ensuring that an agency level workforce plan is in place. An agency level workforce plan helps hiring managers to make decisions on the best resource strategy to meet their business needs. This is important because contingent labour should only be engaged after considering all other recruitment options and the agency's workforce plan.

Contingent workforce data is not always reliable or accurate

The accuracy and reliability of contingent workforce data varied significantly across the three agencies we reviewed. In Industry and Transport, information on contingent labour is difficult to obtain because it must be drawn from different data sources, affecting its accuracy, reliability and timeliness. This information is also incomplete, with these agencies not having a full picture of their contingent workforce. Quality data is important because it improves an agency's capacity to plan and monitor its use of contingent labour to ensure it meets business needs.

At the time of our review, only Education, through Contractor Central, was able to obtain timely and accurate data on its use of contingent labour. Contractor Central has also improved its reporting capability, with the agency's executive now receiving quarterly reports on its contingent workforce. In contrast, executives in Industry and Transport received ad-hoc reports on the use of contingent labour that only gave them limited oversight of their contingent workforce.

Long tenure of contingent workers is an issue in agencies

We found that the maximum tenure of contingent labour varied across agencies from nine to more than 20 years. In Education and Transport, staff reported that hiring managers assume contingent workers are automatically renewed at the end of their contract, with no formal consideration about whether contingent labour is still needed. Also, contingent labour is used for significant capital projects in the information technology and infrastructure areas where a project may run for several years.

None of the agencies reviewed undertook an analysis to determine how to reduce tenure while ensuring business needs are met. This is particularly important for long-term use of contingent labour for large capital projects. Understanding whether contingent labour represents best value compared to other recruitment options, such as secondments or temporary employment, is essential. Contingent workers are engaged under different working conditions to employees. Long tenure can pose an industrial relations risk to agencies because contingent workers may believe they are entitled to the same working conditions as employees.

On and off-boarding processes could be strengthened

Agencies have processes to engage and release contingent labour, also called on boarding and off-boarding. This includes access to IT systems, building access, and the return of property. However, not all agencies had on boarding or off-boarding checklists with specific requirements for engaging or releasing contingent labour. In addition, agencies' off boarding guidelines did not always provide for knowledge transfer. This was identified as a key risk by staff because it is important to ensure that critical skills and knowledge are retained.

Risk that agencies are being overcharged when engaging contingent labour

We found that in agencies without Contractor Central, there is limited assurance that recruitment agencies charge in line with the prequalification scheme fees. NSW Procurement estimates that the government was overcharged \$1.3 million in 2015–16. In addition, there is a risk that hiring managers do not have sufficient information to benchmark pay rates when negotiating contingent labour engagements. Agencies with Contractor Central may be more likely to get reasonable rates by using a recruitment broker who has specialised market knowledge.

No system in place to monitor the performance of contingent workers

None of the agencies we reviewed had a system in place to monitor the performance of their contingent workforce at an agency level to ensure it delivers value for money. Hiring managers are not required to evaluate whether contingent labour delivers the services for which they are hired. For example, hiring managers do not routinely assess and centrally document the quality of services provided, including whether services are delivered on time and within budget. This means contingent workers who are not performing may be re-hired by other managers or agencies. With the implementation of Contractor Central, there is the means to capture agency-wide information on the performance of contingent workers.

Contractor Central has the potential to improve value for money

Contractor Central has the potential to improve value for money. This is because the recruitment broker has specialised market knowledge and is able to promote competition, and benchmark and negotiate pay rates. In addition, the new software can streamline invoice processing and ensure correct supplier rates are charged. Education reports that it achieved a net saving of \$944,600 from August 2015 to May 2016 due to the introduction of Contractor Central. Industry also expects to achieve similar results with Contractor Central, which it advised was implemented in November 2016.

Recommendations

The Department of Industry and Transport for NSW should, by December 2017:

1. improve the accuracy and reliability of their data on contingent labour
2. routinely report the use of contingent labour to agency executive.

The Department of Industry, Department of Education, and Transport for NSW should:

By December 2017

3. ensure agency-wide on-boarding and off-boarding guidelines or checklists detail the specific requirements for engaging or releasing contingent labour, including provisions for knowledge transfer.

By March 2018

4. ensure that contingent labour informs and is informed by workforce planning, by:
 - analysing agency-wide business needs, staff capability, and skills gaps
 - understanding how gaps are filled by contingent workers or other recruitment options
 - assessing whether long-term contingent worker engagements are the most economical and effective labour option
 - evaluating whether contingent workers meet agency business needs and deliver value for money.
5. assess and centrally document the performance of their contingent workforce to ensure that services are delivered as contracted
6. implement processes to ensure that hiring managers consider other recruitment options prior to engaging or re-engaging contingent workers.

Sector-wide learnings

This audit identified learnings that government agencies across the sector should consider when procuring and managing contingent labour:

1. Contingent workforce planning should be part of an agency's broader workforce planning.
2. Using information systems to manage and procure contingent labour improves the accuracy, reliability and timeliness of contingent labour data. This information enables agencies to consistently assess contingent labour rates and to identify persistent skills gaps in their workforce.
3. Routine reporting of contingent labour to agency executives provides oversight of an agency's use of contingent labour.
4. Hiring managers should consider all recruitment options, with advice from human resources staff, before engaging contingent labour to ensure that it is the most appropriate solution for a specific need.
5. Regularly assessing long tenure contingent labour engagements helps to ensure that such engagements are still the most economical and effective labour option.
6. Planning the engagement of contingent workers, including provisions for knowledge transfer, maximises the potential to obtain value for money from the use of contingent labour.
7. Assessing and centrally documenting the performance of contingent labour against agreed deliverables helps to ensure services are delivered as planned, including in terms of quality, and timeliness.

Introduction

Background

What is contingent labour?

The Public Service Commission (PSC) has developed guidelines to assist NSW public sector agencies engage and manage contingent labour. The guidelines define contingent labour as 'people employed by a contingent labour supplier and hired from that supplier by a NSW Government agency to provide labour or services'.

The PSC recommends that agencies only use contingent labour to meet business objectives when:

- there is an immediate and short-term need to fill a vacancy, pending recruitment action
- there is a specific capability gap that needs to be filled
- there is a time-limited need for additional resources or specialised knowledge that will not be required within the ongoing workforce.

In addition, the PSC recommends that agencies avoid using contingent labour for long periods, i.e. more than six months. Contingent labour should also:

- be the most efficient and effective option available for meeting business needs
- inform and be informed by whole of organisation workforce planning and development.

Procurement Benefits Roadmap: the contingent workforce initiative

The NSW Government established the 'Procurement Benefits Roadmap' in 2014. The Roadmap established a number of procurement initiatives to maximise savings across all major categories of expenditure. Contingent labour was identified as one of 11 whole of government initiatives that could realise a net saving of \$52.3 million between 2013–14 and 2017–18.

NSW Procurement is responsible for overseeing the government's Contingent Workforce Renewal Strategy. The Strategy aims to achieve greater efficiency and effectiveness in the use of contingent workers. It was created to address a number of issues in this area, such as data inaccuracies, inconsistencies in pay rates, and a limited number of contracts awarded to small and medium enterprises.

The Strategy has four pillars:

- prequalification scheme – a list of approved contingent labour suppliers that are engaged based on the scheme rules, including a set supplier fee
- vendor management system – an information system to engage and manage contingent workers with the ability to automate processes, benchmark pay rates, forecast trends, and produce real-time reports on contingent labour use
- managed service provider – a broker between hiring managers and recruitment agencies that manages end-to-end processes, including consolidated billing, supplier performance and policy controls
- contractor management organisations – organisations that manage a database of contingent workers. Agencies can search the database and source labour from these organisations.

The vendor management system and managed service provider are together called 'Contractor Central'.

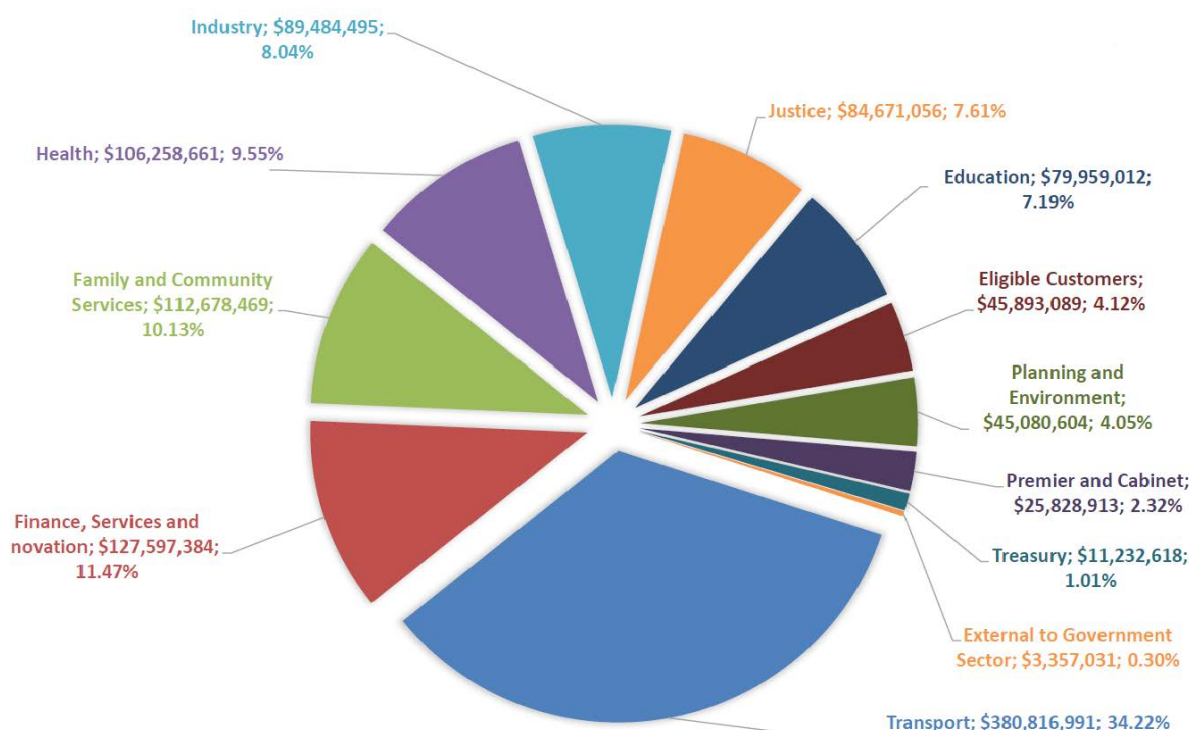
The prequalification scheme was introduced in 2013 and is mandatory for NSW public sector agencies. The other pillars are being progressively rolled out by agencies. As at November 2016, seven clusters had implemented Contractor Central. Transport for NSW, the Department of Premier and Cabinet, and NSW Treasury are yet to implement Contractor Central.

Contingent workforce: general trends

Government spend on contingent labour has risen sharply from \$503 million in 2011–12 to \$1.1 billion in 2015–16. In the 2016 Workforce Profile Report, the PSC estimated that the contingent workforce was equivalent to 7,571 full-time employees, representing 2.3 per cent of the public sector workforce¹. Nearly 60 per cent of contingent workers had contracts that were above the PSC six-month recommended tenure.

In 2015–16, the Transport cluster accounted for 34.2 per cent of contingent labour spend, followed by the Department of Finance, Services and Innovation (11.5 per cent) and the Department of Family and Community Services (10.1 per cent). See Exhibit 1 below.

Exhibit 1: Spend on contingent labour per cluster, 2015–16



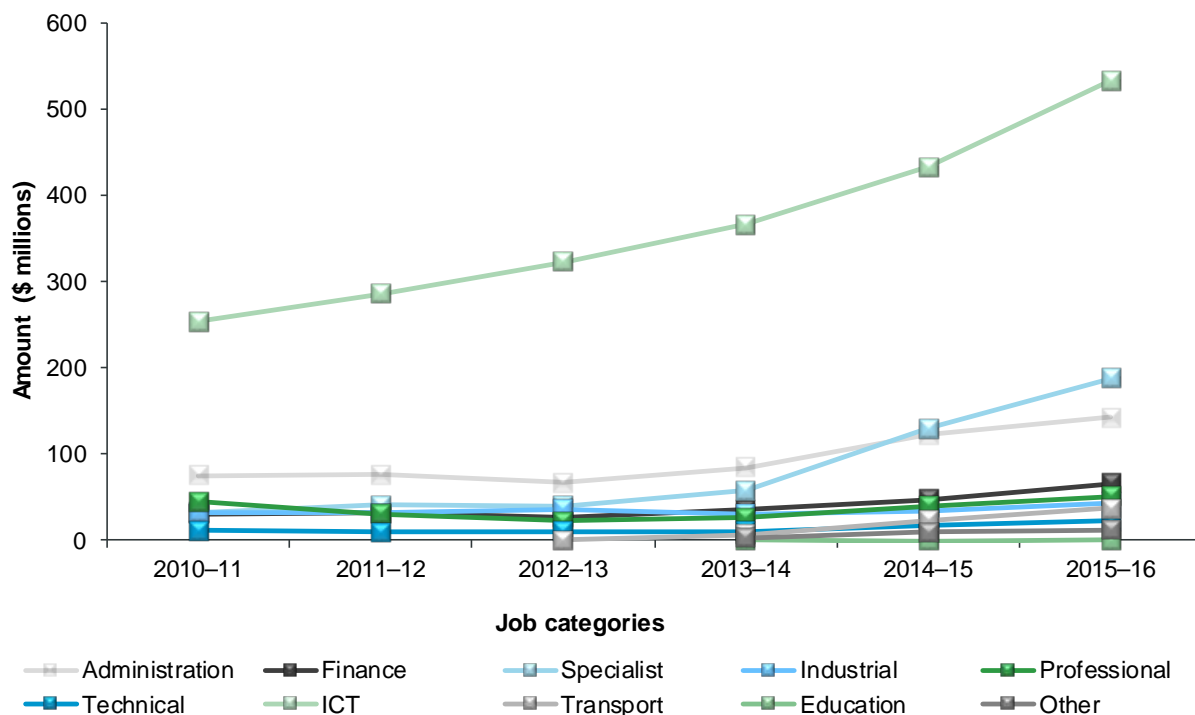
Note: Spend data is based on monthly reports submitted by contingent labour suppliers. NSW Procurement estimates this data to be under-reported by up to 15 per cent. Figures may include statutory authorities and state-owned corporations. Clusters have different arrangements for including statutory authorities. The prequalification scheme is not mandatory for state-owned corporations.

Source: NSW Procurement.

¹ In 2016, the PSC reported that there were 324,477 public sector annual full-time employees.

In 2016, the largest number of contingent workers was in the administration category. This includes executive assistants, office support, and receptionists. However, as shown in Exhibit 2, the largest contingent labour spend is for specialised ICT skills such as software developers, network engineers, and IT managers.

Exhibit 2: Contingent labour spend by job category, 2010–11 to 2015–16



Note: Job categories are defined within the prequalification scheme rules. Transport and Education job categories comprise, for example, engineers and child care assistants. Data excludes NSW State Emergency Services and Home Care Services categories. ICT includes ICT network and equipment; ICT management, implementation and support; and ICT applications, databases and systems.

Source: Audit Office analysis of NSW Procurement data.

What this audit is about

This audit assessed whether agencies' approach to purchasing and managing their contingent workforce meets business needs and delivers value for money. To help answer this question we asked whether:

- agencies have effective oversight of their contingent workforce to ensure that it meets their business needs
- agencies' arrangements for purchasing and managing their contingent workforce deliver value for money.

By 'contingent workforce', we mean contingent labour hired under the prequalification scheme.

As part of this audit, we reviewed key policies, procedures and data relating to contingent labour. We reviewed three agencies as case studies:

- Department of Education (Education)
- Transport for NSW (Transport)
- Department of Industry (Industry).

We interviewed relevant staff from these agencies and also met stakeholders, such as recruitment agencies and a managed service provider.

The agencies' responses to the audit report are at Appendix 1. Further information on the audit scope and criteria is at Appendix 2.

Key findings

1. Effective oversight of contingent labour

Despite having established business rules to engage contingent labour, none of the agencies we reviewed were able to demonstrate that contingent labour is the best resourcing strategy to meet their agency's business needs. For example, agencies could not demonstrate that they had analysed their use of contingent labour at an agency-level, including how it addresses any skills gap. None of the three agencies had an agency level workforce plan in place that informs or is informed by the use of contingent labour. However, one agency is working towards this. Industry has recently developed a 2016–19 Workforce Planning Strategy which incorporates contingent labour as one of several resourcing options along with temporary and permanent employees.

Two of the three agencies have limited oversight of their contingent workforce due to poor quality data. Only Education, which had implemented Contractor Central at the time of our review, has timely and accurate data on its contingent workforce. Education is also the only agency that routinely reports its use of contingent labour to the agency's executive. Improving oversight of contingent labour is essential in understanding business needs.

Recommendations

1. We recommend that the Department of Industry and Transport for NSW:
 - improve the accuracy and reliability of their data on contingent labour
 - routinely report the use of contingent labour to agency executive.
2. We recommend that the Department of Industry, Department of Education, and Transport for NSW:
 - ensure that contingent labour informs and is informed by workforce planning, by:
 - analysing agency-wide business needs, staff capability, and skills gaps
 - understanding how gaps are filled by contingent workers or other recruitment options
 - evaluating whether contingent workers meet agency business needs and deliver value for money.

1.1 Accurate and reliable information on contingent labour

Two of the three agencies reviewed have inadequate data on contingent labour

At the time of our review, Industry and Transport had limited capacity to obtain information on contingent labour. Compiling data to report on contingent labour is an onerous task, involving different data sources, which can affect accurate and timely reporting. Staff advised that they sometimes use data from NSW Procurement, which is sourced from recruitment agencies, but they consider it unreliable and difficult to analyse.

Only Education, which has implemented the new software program for managing contingent labour, was able to obtain timely and accurate reports on its contingent workforce. This program is a web-based tool that facilitates the hiring process, timesheet approvals and payment of fees and rates.

Exhibit 3: The accuracy and reliability of data within agencies

- Transport is progressively rolling out 'Equip', an enterprise resource planning system. Staff reported that Equip will be rolled-out to all cluster agencies in 2017. Prior to Equip, there was limited information on contingent labour, and procurement reports only showed spend by recruitment agency. With Equip, information on a contingent worker's name, tenure, hiring manager, position description and location is now available. However, a recent internal audit found that it is difficult for Transport to obtain a consolidated and complete picture of its contingent workforce. Oversight of the transport cluster can only occur by collating information from Equip and other agency systems, which may compromise the accuracy and reliability of reports. Transport advised that it is preparing a business case to introduce Contractor Central in 2017.
- In 2013, Industry created a contingent workforce general ledger code to differentiate between contingent workers and other contractors. However, information on its contingent workforce is not easily accessible. It is drawn from different data sources, affecting the accuracy and timeliness of reports. At the time of our review, Industry was in the process of implementing Contractor Central to improve visibility of its contingent workforce.
- Prior to Contractor Central, Education advised that it had no oversight of its contingent workforce. With the introduction of Contractor Central, staff are now able to obtain real-time and accurate reports on key data, such as spend, tenure, headcount, invoice accuracy, and pay rates.

Source: Audit Office fieldwork, September/October 2016.

Having adequate data to enable agencies to monitor contingent workers is critical. Staff in the two agencies without Contractor Central reported that poor data makes it difficult to check compliance against the prequalification scheme rules. Access to quality data is also important to inform workforce planning decisions. This is discussed further in section 1.2.

Limited monitoring of contingent labour use by agency executive

We found no evidence of routine reporting of contingent labour use to agency executives in two agencies we reviewed. Reports on contingent labour are prepared for the agencies' executive on an ad-hoc basis. At the time of our review, only Education, by using Contractor Central, provided comprehensive quarterly reports on its use of contingent workforce to agency executive. Industry advised that it plans to introduce monthly reports to the agency executive once Contractor Central is implemented.

Limited executive reporting is influenced by a number of factors, including difficulties obtaining data in a timely way and poor data quality. However, in an environment of increasing use of contingent labour in the public sector, it is important that an agency's executive monitor the use of contingent labour to ensure it is the best option available to respond to agency business needs.

Some business units monitor their use of contingent labour

Although we found limited monitoring at the executive level, some business units, particularly those that often engage contingent labour, monitor their contingent workforce. The Information Technology Directorate and the Learning Management Business Reform unit within Education regularly monitor their use of contingent labour. This includes holding meetings to discuss the future business needs and tenure of their contingent workforce. Monitoring the use of contingent labour helps managers to assess whether it meets their business unit's needs.

1.2 Use of contingent labour and workforce planning

Data on contingent labour is not used to inform workforce planning

None of the agencies reviewed uses contingent labour data to inform workforce planning at an agency level. We found no evidence of agency-wide analysis of staff capability, how gaps are addressed by contingent workers, and the best labour options to meet business needs.

Our findings are consistent with the PSC's 2015 'State of the Workforce Reform' report, which found that workforce data and the use of evidence to inform decisions are not well progressed, with few agencies linking workforce data to business data. It also found that staff within agencies were using multiple and unconnected systems to manage workforce information, and that managers were not able to get all the information they would like about their own teams.

Agency level workforce plans are not in place

An agency's executive is responsible for ensuring that an agency level workforce plan is in place. In the absence of such a plan, many staff view the engagement of contingent labour as a procurement function only. Hiring managers in the agencies we reviewed work directly with procurement staff in engaging contingent labour. To help hiring managers make decisions on the best resource strategy for their business needs, managers need to be informed by an agency level workforce plan. While hiring managers are ultimately accountable for hiring decisions, human resources also has a role to play in terms of providing advice and ensuring compliance with relevant policies.

Industry started implementing a 2016–19 Workforce Planning Strategy which will help inform hiring managers on the best resource strategy for short-term vacancies. In addition, they advised that once Contractor Central is implemented there will be a partnership between procurement and human resources areas.

Exhibit 4: The 2016–19 Workforce Planning Strategy for the Department of Industry

The Department of Industry's Workforce Planning Strategy has three goals to be achieved by June 2019. These goals are to:

- have an understanding of capability gaps
- identify strategies to close gaps
- inform evidence-based management decisions.

Contingent labour is one of the strategies to resource the business along with the recruitment of casual, temporary and permanent employees.

In addition, Industry advised that once Contractor Central is implemented, its workforce administration team will work with Contractor Central staff. Both teams will be located close to each other, so that the recruitment unit can review whether other recruitment options should be considered. Contingent labour will be the last option when addressing resource gaps in business units.

Source: Audit Office research.

Business units are undertaking workforce resourcing activities

We found that some business units are improving how they resource and schedule contingent workers within their units. Staff in the Learning Management Business Reform unit in Education advised that they forecast their use of contingent labour based on their forward program. Contractor Central staff then advertise roles as 'upcoming' opportunities. The Infrastructure and Services Division in Transport also uses information on the skills and tenure of its existing contingent workforce to fill vacancies in future projects. Workforce resourcing and scheduling allows business units to engage contingent labour more efficiently, ensuring a smooth transition between staff.

As part of Industry's efforts to reduce its contingent workforce, Business Technology Services (BTS) staff advised that they regularly review their use of contingent labour. Some strategies BTS staff said they use include:

- transitioning contingent labour to permanent positions
- other procurement options, such as the use of consultants
- outsourcing, for example, application development work.

These practices show that focusing on resourcing and scheduling contingent workers has the potential to improve project delivery and reduce business costs.

1.3 Requirements for using contingent labour

Business rules are in place to assist managers to hire contingent labour

All three agencies have established business rules to assist hiring managers engage contingent labour. Examples of these rules include that:

- Director or Deputy Secretary approval is required to engage contingent labour
- contingent workers cannot have financial or human resource delegations
- hiring managers cannot be contingent workers
- hiring managers with personal knowledge of contingent labour candidates should declare any potential conflicts of interest
- timesheets must be approved by the assigned manager
- contingent labour should not be engaged for more than six months, unless a specific need for it can be established.

Business rules around tenure varied across the three agencies, with only Industry adopting the PSC's recommended six-month tenure guideline for hiring contingent labour. The other two agencies have business rules which take effect when contingent workers have been engaged for 12 months, which the PSC considers to be a long-term engagement. Despite these business rules, we found that contingent workers were being engaged for periods longer than 12 months in all three agencies reviewed. We discuss this further in section 2.2.

Some guidance is in place about when to use contingent labour versus other options

All three agencies reviewed have some guidance in place to help hiring managers make decisions about when to hire contingent labour compared to other options. For example, Transport has a recruitment checklist which outlines the different options to fill a vacancy based on the duration of the vacancy and required start date. Options include contingent workers, temporary employees, new employees, or staff members on higher duty allowances.

Education's procurement manual advises hiring managers to first consider whether or not the skills required are available internally. It also outlines the difference between consultants, contingent workers, and contractors.

Having these guidelines in place, however, does not guarantee that hiring managers will comply with these when using contingent labour. There must a step in the engagement process to prompt hiring managers to consider other labour options in line with the agency's workforce planning. We discuss this further in section 2.1.

2. Delivering value for money from contingent labour

Although the three agencies we reviewed have processes in place to engage and manage contingent labour, they were not able to demonstrate they obtain value for money from their contingent workforce. None of the agencies have an agency level workforce plan in place or formally require the advice of human resources staff when engaging contingent labour. This limits assessment of whether contingent labour is the most appropriate solution for a specific business need. In addition, in agencies without Contractor Central, once a decision has been made to engage contingent labour, there is limited assurance that recruitment agencies charge in line with the prequalification scheme fees. NSW Procurement estimates that the government was overcharged \$1.3 million in 2015–16.

In Education and Transport, staff also reported that hiring managers assume contingent workers are automatically renewed at the end of their contract. This can lead to long tenure with no formal consideration about whether contingent labour is still needed. We found that the maximum tenure of contingent workers across the three agencies varied from nine to more than 20 years.

None of the agencies we reviewed had a formal system in place to monitor the performance of their contingent workforce at an agency level to ensure it delivers value for money. Hiring managers are not required to routinely evaluate and centrally document whether contingent labour delivers the services for which they were hired. In addition, agencies' off-boarding procedures did not always provide for knowledge transfer.

Contractor Central, which was in place in Education at the time of our review, has the potential to improve value for money. This is because the recruitment broker has specialised market knowledge and is able to promote competition, and negotiate pay rates. Contractor Central can also streamline hiring processes and timesheet approval.

Recommendations

We recommend that the Department of Industry, Department of Education, and Transport for NSW:

- ensure agency-wide on-boarding and off-boarding guidelines or checklists detail the specific requirements for engaging or releasing contingent labour, including provisions for knowledge transfer
- assess and centrally document the performance of their contingent workforce to ensure that services are delivered as contracted
- implement processes to ensure that hiring managers consider other recruitment options prior to engaging or re-engaging contingent workers
- assess whether long-term contingent worker engagements are the most economical and effective labour option.

2.1 Processes to assist hiring managers engage contingent labour

Limited processes to ensure hiring managers consider all recruitment options with advice from human resources staff

The processes in place to engage contingent labour do not ensure hiring managers obtain the advice of human resources staff when engaging contingent labour. This is important because contingent labour should only be engaged after considering all other recruitment options and the agency level workforce plan. At the time of our review, none of the agencies had an agency level workforce plan in place.

Industry advised that it plans to improve its processes. After Contractor Central is implemented, requests to engage contingent labour for more than the PSC recommended six-month period will be automatically sent to the workforce planning section. Workforce planning staff will then assist hiring managers to evaluate whether contingent labour is the most suitable option. This approach aims to ensure hiring managers engage contingent labour as a last resort.

Staff believe current recruitment processes increase the use of contingent labour

Staff within the agencies we reviewed advised that some hiring managers have been using contingent labour to avoid the recruitment requirements under the *NSW Government Sector Employment Act 2013* (GSE Act). This is because staff considered the processes for recruiting temporary employees under the GSE Act, and related instruments, onerous for short-term engagements, particularly for a 12-month appointment. The *Government Sector Employment (General) Rules 2014* required that a suitability assessment, comprising an interview and another capability-based assessment, be carried out for temporary employment for less than six months. For a 12-month appointment, managers must carry out an additional capability-based assessment and seek multiple applicants.

The *Government Sector Employment (General) Rules 2014* were amended on 1 January 2017 to allow suitability assessments to be carried out for temporary employment up to 12 months without the need to have comparative assessments. This allows hiring managers to first search the market to recruit temporary employees, leaving contingent workers as a last business resourcing option.

'On-boarding' process could be strengthened

All agencies reviewed have processes in place to ensure contingent labour can access key systems and resources when they are first hired, also called 'on-boarding'. This includes:

- IT systems
- building and work areas (e.g. building access, security passes)
- records management and other business software
- other resources such as computers, workstations, and telephones.

However, these processes could be strengthened. In two of the agencies, their checklists did not identify the specific requirements for engaging contingent labour, citing non-applicable items like probation and staff development. In addition, processes did not always cover important matters like policies on work health and safety, or an agency's code of conduct. Only Education has put in place some of these requirements specific to contingent workers, such as:

- on-line mandatory induction (e.g. building emergency procedure)
- tour of facilities
- information about key agency policies, rules and regulations
- information about the contingent worker's role and responsibilities.

If guidelines for contingent labour are in place, hiring managers can then certify that contingent workers have the equipment and information needed for an immediate start.

Risk that agencies are being overcharged when engaging contingent labour

In agencies without Contractor Central, once the decision to engage contingent labour has been made, hiring managers need to have a good understanding of the market rates for a specific job category in order to negotiate a reasonable pay rate. Agencies that introduced Contractor Central may be more likely to get reasonable rates by using a recruitment broker who has specialised market knowledge and is able to benchmark and negotiate pay rates.

There is also evidence that some recruitment agencies have been charging above prequalification scheme fees. NSW Procurement estimates that the government was overcharged \$1.3 million in 2015–16². With Contractor Central, the vendor management system automatically adjusts the scheme fees according to contract tenure, reducing the risk of errors.

² This figure does not include overcharging on WorkCover rates or payroll tax.

2.2 Processes to 'off-board' contingent labour

Arrangements for 'off-boarding' vary and could be strengthened

Arrangements to support hiring managers to off-board their contingent workers vary across the agencies reviewed. In Industry, there are no guidelines for off-boarding contingent labour, despite off-boarding being identified a high-risk area in an internal audit. The internal audit found that assets, such as laptops, had been lost, and payments had occurred after contracts had ended.

In the other two agencies, there are guidelines and procedures in place for off-boarding contingent workers. These documents refer to:

- removing access to IT systems and buildings
- returning security passes
- returning departmental equipment
- paying any outstanding fees and rates.

Two agencies' off-boarding checklists were not specific to contingent labour, but captured all types of employment. This means that hiring managers must know whether or not an item is applicable to a contingent worker. For example, items on procurement authority and flex-time are not applicable to contingent workers.

Better provisions for knowledge transfer are needed

None of the agencies' off-boarding guidelines provide for knowledge transfer, despite this being identified as a key risk by agency staff. Encouragingly, off-boarding checklists for two business units we spoke to referred to knowledge transfer. For example, the IT division in Education has a checklist that prompts hiring managers to confirm whether contingent workers' knowledge of IT systems have been transferred to staff.

Ideally, hiring managers should put arrangements in place for knowledge transfer when contingent workers are engaged. This may include, for example, contingent staff and employees working in the same team or ensuring key material is documented. If knowledge is not transferred during the engagement, it is important to ensure that the hiring manager is aware of any potential or outstanding issues when a contingent worker leaves the agency.

Long tenure of contingent workers is an issue in agencies

All three agencies we reviewed hire contingent labour in long-term engagements, i.e. more than the PSC recommended six-month guideline. The maximum tenure of contingent labour varied across agencies from nine to more than 20 years.

Exhibit 5: Contingent labour tenure (2015–16), calendar days

Tenure data (2015–16)	Department of Education	Department of Industry	Transport for NSW
Average	367	250	396
Median	183	173	349
Maximum	>7,300 (or >20 years)	3,195 (approx. 9 years)	4,377 (approx. 12 years)

Note: Six months = approx.183 calendar days.

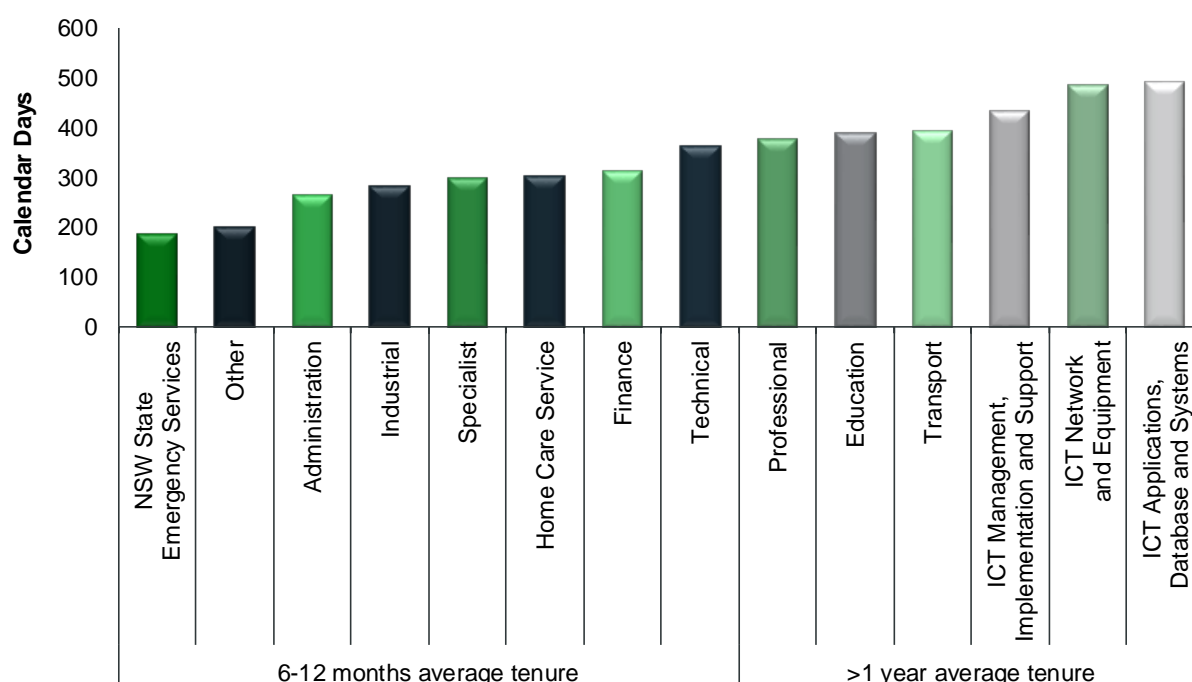
Source: NSW Procurement, Department of Education and Department of Industry data.

Staff advised that contingent workers are engaged for longer than six months in the following circumstances:

- for large capital projects, which often take many years to complete
- for long-term IT projects
- for specialised skills, pending recruitment action
- for positions that were not able to be created permanently due to restrictions in FTE.

In Education and Transport, contingent labour is used for significant capital projects in the information technology or infrastructure areas, where tenure can be more than two years. Our analysis of NSW Procurement data is consistent with the use of contingent labour in these areas. See Exhibit 6.

Exhibit 6: NSW Government average tenure by job category, 2015–16



Source: Audit Office analysis based on NSW Procurement data.

Agency staff reported that for some highly-skilled roles in IT and infrastructure projects, they engage contingent labour on a long-term basis because:

- there are no skills in-house
- the expertise required is in high demand
- the experience required to manage complex projects is difficult to find in Australia
- public sector salaries are not attractive to highly-skilled project specialists.

In addition, agencies advised us that it can take a long time to find contingent workers for these areas. For example, from September to December 2016, the average time for Education to engage an ICT Technical Manager was 43 days. Staff in these technical areas reported that they expect most contracts for major projects to be renewed automatically, resulting in ‘career contractors’. The PSC recommends that agencies evaluate market conditions to verify that there is a shortage of workers with the required expertise and capabilities in these areas before re-engaging contingent labour.

Where contingent labour is engaged for long periods at more senior levels in an agency, there is a risk that they will have management, financial and human resources delegations. This finding is consistent with an internal audit in Transport that identified 12 employees engaged in leadership roles, e.g. Director level. Continued use of contingent labour in these positions may also result in loss of critical skills and expertise.

More analysis could be undertaken as part of workforce planning to determine how to reduce tenure while ensuring business needs are still met. This agency-wide analysis could include contingent labour use in large capital projects and whether it represents best value compared to other recruitment options. Contingent workers are engaged under different working conditions to employees. Long tenure can also pose an industrial relations risk to agencies because contingent workers may believe they are entitled to the same working conditions as employees.

2.3 Monitoring the performance of contingent labour

No system in place to monitor the performance of contingent workers at an agency level

None of the agencies reviewed could demonstrate that they routinely monitor the performance of their contingent workforce at an agency level. We found no evidence that managers are required to report that services were provided as contracted and within the negotiated timeframe.

One division within Transport has been reporting on the performance of contingent workers to recruitment agencies since 2013 on engagements valued at over \$150,000. This division reports on time management, cooperative relations, and submission of invoices and timesheets. However, the division's evaluation criteria do not relate to the delivery of contractual outputs on time and within budget.

Education has implemented 'exit surveys' which ask contingent workers about their experience within the agency. However, these surveys are not mandatory, do not analyse performance against key deliverables, and only occur at the end of an engagement.

We think hiring managers should continually assess contingent workers' performance by answering questions, such as:

- are contingent workers providing the service as contracted?
- are contingent workers delivering quality services?
- are services being delivered on time and within budget?

This ensures that staff focus on the quality of service. With the implementation of Contractor Central, there is the means to capture agency-wide information on the performance of contingent workers. Data collected from such assessments could provide the basis of performance reports to an agency's executive. If there is no system in place to monitor the performance of contingent workers, there is a risk that underperformers could be hired by another manager within the agency.

Arrangements for dealing with underperforming contingent workers are in place

We found that arrangements for dealing with underperforming contingent workers are flexible and easy to implement. Managers said they deal with underperforming contingent labour by:

- asking recruitment agencies to talk to the contingent worker about his/her performance
- replacing contingent workers with another from the recruitment agency
- terminating the contract early.

These approaches enable hiring managers to effectively manage any significant performance issues should they arise.

Some staff believe contingent workers do not need to be 'managed'

Although arrangements are in place for dealing with underperforming contingent workers, staff reported that hiring managers believe that they do not need to 'manage' contingent labour because it is a procurement activity.

However, just like for employees, it is important that managers set clear expectations for their contingent workers and monitor performance against these to ensure effective and efficient use of public resources. Otherwise, the longer it takes hiring managers to set expectations and monitor results, the more likely it is that contingent labour will not deliver the services required.

Contractor Central helps staff monitor the performance of recruitment agencies

With the introduction of Contractor Central, Education is better able to monitor the performance of recruitment agencies. Education receives reports on each recruitment agency which includes indicators, such as the number of candidates submitted for jobs, accepted for shortlisting, or selected for a position.

If a recruitment agency's performance is considered 'unsatisfactory', Contractor Central staff submit a report to NSW Procurement. The scheme conditions allow NSW Procurement to temporarily suspend suppliers for confirmed poor performance or for breaching scheme conditions. This means that Education is less likely to hire from recruitment agencies with a history of poor performance.

Contractor Central has the potential to improve value for money

We found that Contractor Central has the potential to improve value for money from an agency's contingent workforce. Education reported that it has achieved a net saving of \$944,600 from August 2015 to May 2016. This is because Contractor Central has helped to ensure:

- better oversight of contingent labour use due to more accurate and reliable data
- better compliance with procurement principles and guidelines
- benchmarking of rates to ensure agencies do not pay above market rates
- streamlined hiring process, which reduce time to hire
- more efficient timesheet approvals.

This is an encouraging outcome. Other agencies should look for similar ways to increase their oversight of contingent labour to help improve value for money.

Education also advised that it is planning to use Contractor Central for other procurement categories, such as the use of consultants where a defined scope of work is required for a project, called 'statements of work'. This aims to improve oversight of Education's use of consultants and other contractors.

Appendices

Appendix 1: Agency responses

Response from Department of Industry



Office of the Secretary

SECO17/98

Margaret Crawford
Auditor-General of NSW
Audit Office of NSW
Level 15
1 Margaret Street
SYDNEY NSW 2000

Margaret
Dear Ms Crawford

Performance Audit - Contingent workforce: procurement and management

I refer to your letter dated 14 March 2017 enclosing a copy of the final report on the above audit. Thank you for your invitation to provide a formal response on behalf of the Department of Industry (the Department) to incorporate into the published report.

The Department was pleased to participate in this audit and accepts the findings of the report as a fair representation of the Department at the specific time of the review.

The report has identified six recommendations for consideration by the Department. I am pleased to note that:

1. three of the recommendations have already been resolved as a result of the implementation of Contractor Central (the whole of Government vendor management system) by the Department on 25 November 2016 (the fieldwork for the audit pre-dated the implementation date);
2. one recommendation is being addressed under the Department's 2016-19 Workforce Planning Strategy; and
3. the Department is now taking action to implement the remaining two recommendations. These are expected to be completed in July 2017, prior to the audit report's recommended completion dates of December 2017 and March 2018.

The Department is actively working to ensure that our engagement of contingent labour meets our business needs and provides value for money. The audit has provided the Department an opportunity to assess its performance against those goals and identify further areas for improvement.

If you require any further information please contact Caroline Triggs, **Senior Manager Strategic Procurement**, Ph (02) 6391 3778 or caroline.triggs@industry.nsw.gov.au.

Yours sincerely

Simon A Y Smith 31/3/17
Simon A Y Smith
Secretary

cc (via email) Kathrina Lo, Assistant Auditor-General, Performance Audit
kathrina.lo@audit.nsw.gov.au

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Performance Audit – Contingent workforce: procurement and management

Response by the Department of Industry (Department)

Recommendations 1 and 2

The Department of Industry and Transport for NSW should, by December 2017:

1. *improve the accuracy and reliability of their data on contingent labour*
2. *routinely report the use of contingent labour to agency executive.*

Response: Adopted prior to release of audit report - implementation of Contractor Central in November 2016.

The Department implemented Contractor Central in 2016, launching on 25 November 2016. This system provides the Department with accurate and reliable data on contingent labour, including periods of engagement, personnel, suppliers, rates, committed and actual spend and FTE reporting.

This data is then used to generate reports on the use of contingent labour within the Department. These reports provide a real time picture of the engagement of contingent labour within the Department. This information is now included in monthly reports to Corporate Operations senior executive.

Recommendation 3

The Department of Industry, Department of Education and Transport for NSW should, by December 2017

3. *ensure agency-wide on-boarding and off-boarding guidelines or checklists detail the specific requirements for engaging or releasing contingent labour, including provisions for knowledge transfer.*

Response: Accepted. Target completion for checklists for contingent labour - July 2017

The Department has detailed on-boarding checklists, guidelines and procedures which are utilised for both employees and contingent labour. These include automated and integrated systems through the Department's Finance, Strategy and Operations (FSO) portal and Enterprise Resource Planning (ERP) system.

The Department also has a checklist for off-boarding employees and contingent labour, which is supplemented by procedures within Contractor Central specifically for contingent labour.

It is recognised by the Department that there is a case for maintaining separate checklists for

employees and contingent labour. The Department will now review the checklists against the specific requirements for engaging and releasing contingent labour, including provisions for knowledge transfer.

It is anticipated that this review will produce agency wide on-boarding and off-boarding checklists and guidelines specifically for contingent labour. The Department is planning to complete these by July 2017.

Recommendation 4

The Department of Industry, Department of Education and Transport for NSW should, by March 2018

4. *ensure that contingent labour informs and is informed by workforce planning, by:*
- *analysing agency-wide business needs, staff capability, and skills gaps*
 - *understanding how gaps are filled by contingent workers or other recruitment options*
 - *assessing whether long-term contingent worker engagements are the most economical and effective labour option*
 - *evaluating whether contingent workers meet agency business needs and deliver value for money*

Response: Accepted. Addressed under agency-wide workforce planning strategy launched July 2016

In July 2016 the Department launched the Strategic Workforce Planning Strategy 2016-19, which applies across the cluster. The strategy is based on best practice strategic workforce planning and provides a high level framework which will enable the Department to:

- assess capability gaps;
- identify strategies to close gaps; and
- inform evidence-based management decisions.

As noted in the audit report, this strategy helps inform hiring managers on the best resource strategy for short-term vacancies. In addition, the Department is continuing to strengthen the partnership between procurement and workforce planning and administration to optimise the use of contingent labour.

Recommendation 5
<p><i>The Department of Industry, Department of Education and Transport for NSW should, by March 2018</i></p> <p>5. <i>assess and centrally document the performance of their contingent workforce to ensure that services are delivered as contracted</i></p>
<p>Response: Accepted. Target completion for performance monitoring plan for contingent labour - July 2017</p>
<p>The Department acknowledges that performance monitoring of contingent labour has been limited within the cluster. The implementation of Contractor Central in November 2016 provides increased opportunity and capacity to monitor performance through system features such as exit surveys.</p> <p>In addition, the Department is now developing a performance monitoring plan for contingent labour. It is expected that this template plan will be completed in July 2017 and made available to all hiring managers.</p>

Recommendation 6
<p><i>The Department of Industry, Department of Education and Transport for NSW should, by March 2018:</i></p> <p>6. <i>implement processes to ensure that hiring managers consider other recruitment options prior to engaging or re-engaging contingent workers.</i></p>
<p>Response: Adopted prior to release of audit report – implementation of Contractor Central in November 2016.</p>
<p>From November 2016 a business rule has been implemented within Contractor Central which ensures that requests to engage contingent labour for more than the NSW Public Service Commission (PSC) recommended six-month period are automatically sent to the workforce planning section. At this point workforce planning will discuss recruitment options with the hiring manager to establish whether contingent labour is the most appropriate form of engagement.</p> <p>This rule applies for any new request for contingent labour, and where a proposed extension to an existing engagement would extend the total period of engagement to more than six months.</p> <p>The rule cannot be circumvented within Contractor Central. To assist hiring managers to understand the basis for the rule, the Department has published guidelines on the intranet to explain recruitment options to hiring managers, including how to assess the use of contingent labour.</p>

Response from Department of Education



Ms Margaret Crawford
Auditor-General of NSW
GPO Box 12
SYDNEY NSW 2001

DGL17/230

Dear Ms Crawford

I refer to your letter of 14 March 2017 inviting a response to the final Performance Audit Report entitled "Contingent workforce: procurement and management".

The Department of Education welcomes the NSW Auditor General's report as an opportunity to highlight the effectiveness of the implementation of Contractor Central which has improved the oversight, monitoring and cost of contingent labour use. I look forward to our next steps in building on our foundation to further improve value outcomes for the department and the NSW Government.

I note the constructive suggestions made in the recommendations of the report and attach a formal response from the department to be incorporated into the published report.

I am pleased to inform you that the department accepts all of the report's recommendations and work is already underway to meet the deadlines detailed in the report.

I would like to thank the review team of the Audit Office for working with the officers of the department to make this audit a worthwhile and constructive exercise.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Scott'.

Mr Mark Scott AO
SECRETARY
DEPARTMENT OF EDUCATION

3rd March 2017

NSW Department of Education
35 Bridge Street Sydney NSW 2000 GPO Box 33 Sydney NSW 2001 T 02 9561 8000 F 02 9561 8465
www.det.nsw.edu.au

The NSW Department of Education welcomes the NSW Auditor General's report *Performance Audit – Contingent workforce: procurement and management*

The Department of Education is focused on ensuring that value for money is achieved in all its practices involving the use of public funds. The department was the first NSW Government agency to adopt the Contractor Central solution for the management and oversight of contingent labour and this program has already delivered significant savings. The department is already in the process of improving the capability of the Contractor Central solution and has recently added statement of works capability to further enhance labour value and oversight.

The department welcomes the NSW Auditor General's report as an opportunity to highlight the success of reforms that have been implemented and we look to the next steps of further improving our management and oversight of contingent labour usage in the department.

Ensure agency-wide on-boarding and off-boarding guidelines or checklists detail the specific requirements for engaging or releasing contingent labour, including provisions for knowledge transfer

The department will review our current on-boarding and off-boarding guidelines and checklists to ensure there is a consistent agency-wide approach. The Contractor Central solution has an on-boarding and off-boarding process that can be modified so that specific requirements, including the provision of knowledge transfer can be satisfied.

Ensure that contingent labour informs and is informed by workforce planning, by:

- analysing agency-wide business needs, staff capability, and skill gaps
- understanding how gaps are filled by contingent workers or other recruitment options
- assessing whether long-term contingent worker engagements are the most economical and effective labour option
- evaluating whether contingent workers meet agency business needs and deliver value for money

Building on the department's Contractor Central solution we will continue to leverage on accurate data reports to strengthen workforce planning. Our current decision process for contingent labour use requires departmental officers to examine other recruitment options before proceeding to contingent labour. We will review and strengthen this decision process to document evidence supporting the decision including how we demonstrate the value for money outcome. Information captured during the decision process will be used to help inform our skills and capability gaps.

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Modification of the Contractor Central decision process will be required to ensure data capture is complete.

Long-term tenure is currently an item that is reviewed by the department's Executive in the quarterly Contractor Central status reports. We will now include six-monthly reviews of all long-term tenures documenting the value as economical and effective labour usage.

At the conclusion of contingent labour engagements departmental officers have the option to complete a post-engagement review of the worker. This is currently optional and we will now move to strengthen the end of engagement reporting. The department measures the value of its contingent labour in project specific benefit reporting and there is no consolidated benefit reporting for contingent labour as a standalone component. Contractor Central will be modified to include benefit reporting capability to capture ongoing reporting of all workers meeting business needs and delivering value for money.

Assess and centrally document the performance of their contingent workforce to ensure that services are delivered as contracted

The modification proposed for the department's Contractor Central solution will provide a central platform for recording all data related to contingent labour usage. The improvements planned for benefit reporting will address issues relating to performance of workers and documenting that services have been delivered as contracted.

Implement processes to ensure that hiring managers consider other recruitment options prior to engaging or re-engaging contingent workers.

The strengthening of the decision process in the Contractor Central solution will ensure that hiring managers document evidence of their recruitment options prior to proceeding to approve any new engagement or re-engagement of contingent labour resources.

Response from Transport for NSW



SO17/01342

Ms Margaret Crawford
Auditor-General of NSW
Audit Office of NSW
GPO Box 12
Sydney NSW 2001

Dear Ms Crawford

Performance Audit Report – Contingent workforce: procurement and management

Thank you for the opportunity to respond to the final report on the performance audit of Contingent Workforce: procurement and management.

Please note that the following comments are limited solely to the use of contingent workforce by Transport for NSW (TfNSW), noting that the audit also considered the use of contingent labour by the NSW Departments of Education and Industry, Skills and Regional Development respectively.

The report concludes that none of the three agencies were able to demonstrate that contingent labour is the best resourcing strategy to meet their agencies' business needs or delivers value for money.

In response, we would again note that the Transport Cluster is delivering an unprecedented level of renewal of transport infrastructure across NSW. In addition, in accordance with the NSW Commission of Audit Final Report, we are also refreshing the large number of disparate agency and information technology systems so that they are fit for purpose to meet the needs of a modern workforce, for the transport system itself and the millions of customers which use that system daily.

In all, the Transport Cluster has been allocated \$41.5 billion over the 4 year forward estimates period to deliver the significant scale of mega projects, service delivery reforms and customer initiatives.

We have worked hard on organising and structuring our agencies and project teams so that we can deliver on these large scale accountabilities. This involves bringing in a broad range of highly skilled people employed within the agencies themselves. It also requires the use of contingent workforce resources to supplement internal employees so we can get the job done in the timeframes expected by the NSW Government on behalf of the NSW community. In summary, contingent labour is subject to detailed planning and monitoring to ensure business needs are met and value for money delivered.

Transport for NSW

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The scale and temporal nature of many of our mega projects necessitates using a large contingent workforce. When those projects are complete that workforce can be readily disbanded. The Audit Report notes that the median tenure of around 350 days for the Transport Cluster contingent workforce. This is hardly surprising when many of these projects are multi-year in nature and have delivery milestones which can vary from year to year.

The delivery of each major project includes a carefully planned resourcing strategy. This takes into account prevailing labour market conditions, existing capacity/capability and the quantum and length of time for which each discipline is required in order to ensure the appropriate mix of permanent/ temporary employees, contingent workforce and third party providers. Each of these resourcing strategies is necessarily specific to that project and aligned to the most cost effective and efficient means of delivering project outcomes on time and within budget.

The Report does not provide any comparison approach of, for example, having to employ a much larger permanent workforce to deliver these mega projects, including a lack of commentary on the specialist nature of resources required to be attracted and the cost of 'ramping up' and then maintaining that increased number of public service personnel over the longer term. Without such a comparison it is not clear how the conclusions have been reached.

To summarise, we are delivering the largest transport infrastructure and service delivery task in a generation. We are delivering that program with a great deal of urgency to meet the community's expectations. That necessitates new ways of working, project governance, and the mix of workforce required to deliver. We are holding ourselves to account for meeting our milestones and maintaining budget discipline. In this regard, we strongly believe we are demonstrating value for money for the use of taxpayer funds.

We again ask that you take these matters into account as we do not consider the conclusions reached accord with the level of delivery that is underway in the Transport Cluster using an appropriate mix of skills, capabilities and resources.

Yours sincerely,



Tim Reardon
Secretary

12/04/2017

Appendix 2: About the audit

Audit objective

This audit assessed whether agencies' approach to purchasing and managing their contingent workforce meets business needs and delivers value for money.

Audit scope and focus

The audit sought to answer the following questions:

1. Do agencies have effective oversight of their contingent workforce and ensure that it meets their business needs?
2. Do agencies' arrangements for purchasing and managing their contingent workforce deliver value for money?

We reviewed three agencies as case studies:

- Department of Education
- Transport for NSW
- Department of Industry.

Audit criteria

The first audit question was addressed with the following criteria:

- 1.1. Agencies have accurate and reliable information on their contingent workforce including who they are hiring, why they are hiring, and how much they are spending.
- 1.2. Agencies' use of contingent labour is informed by workforce planning.
- 1.3. Agencies have established requirements for using contingent labour to ensure it meets their business needs.

The second audit question was addressed with the following criteria:

- 2.1. Agencies have sound processes in place to assist hiring managers to engage contingent labour including recruitment and employment screening.
- 2.2. Agencies have sound processes in place to assist hiring managers to release contingent labour at the end of their contract including knowledge transfer.
- 2.3. Agencies monitor the performance of their contingent workforce to ensure it delivers value for money.

Audit Exclusions

We did not specifically assess:

- contingent workforce procurement that is not part of the pre-qualification scheme
- other labour procurement schemes such as Performance and Management Services and ICT Services
- NSW Procurement role in developing and monitoring the contingent workforce renewal strategy
- the operations of recruitment agencies.

Audit approach

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

We acquired subject matter expertise by:

- interviewing staff within case study agencies that are responsible for:
 - procuring and managing contingent workers
 - workforce planning
- reviewing documents, guidelines and internal processes (e.g. workflows and checklists) relating to procuring and managing contingent labour
- analysing NSW Procurement and agency data on contingent labour
- meeting key stakeholders.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the audited agencies and key stakeholders. In particular, we wish to thank our liaison officers and agency staff who participated in interviews and provided material relevant to the audit.

Audit team

Tiffany Blackett and Kenia Parsons conducted the performance audit. Martin Chia assisted with data analysis. Michael Thistlethwaite provided direction and quality assurance. Rod Longford acted as Engagement Reviewer.

Audit cost

Including staff costs and overheads, the estimated cost of the audit was \$290,000.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Our vision

Making a difference through audit excellence.

Our mission

To help parliament hold government accountable for its use of public resources.

Our values

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

Professional people with purpose

Making a difference through audit excellence.

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