

PwC learnings: Put government back in charge of policy

The PricewaterhouseCoopers (PwC) scandal over misuse of privileged government information to save its clients paying tax¹ may have knocked loose enough rocks to threaten an avalanche that brings down the structures of private control imposed in recent decades over public policy and, by extension, the public purse.



Title page for the 7 August Four Corners episode, “Shadow State: How consultants infiltrated government”

The ongoing Senate inquiry into the structure and oversight of the auditing and consulting sector has dredged up more dirt since the PwC scandal broke, and it keeps coming. A Four Corners program entitled “Shadow State: How consultants infiltrated government”, which aired 7 August, revealed a whistleblower’s claims that consultancy firm KPMG was consistently overcharging the Australian Defence Department for its work. It submitted inflated invoices, charged for work that was never done, and made errors in invoicing. “[A] significant amount of public funds” was wasted, said the whistleblower, who worked for Defence; contracts were awarded and extended with “little or no scrutiny”, even when KPMG was the most expensive tender option.

KPMG is by far the biggest contractor used by Defence, and Defence appears to be the government department with the [most outsourcing](#), with more jobs farmed out than done in-house by public servants.

Another whistleblower interviewed by Four Corners, who worked for KPMG, revealed he was “instructed to record time spent on internal [KPMG] projects against defence codes”. He said KPMG was paid for unnecessary work. The firm broke rules “in ways that *wouldn’t be acceptable in normal business*”, he said (emphasis added). “[U]ltimately”, of course, “it’s taxpayers who are paying for this.”

Australian economy could ‘topple’

Paralleling such fraud on the consulting side, is dodgy behaviour in auditing activity. The Big Four—KPMG, EY, PwC and Deloitte—do both, playing one to the advantage of the other. Tax lawyer turned whistleblower Tony Watson told his story to seasoned financial journalist Adele Ferguson on ABC 7.30 on 14 August under the header, “Risky Business”. When Watson tried to set his employer (Greenwoods & Herbert Smith Freehills) straight on a major client “incorrectly claiming hundreds of millions of dollars of tax deductions”, he quickly found himself out of a job. PwC, which the client (Lendlease) went to for advice, and KPMG, the client’s auditor, approved the activity.

In the 7.30 report, NSW Greens state MP Abigail Boyd pointed to the revolving door between consultancy firms and governments. Former Australian Competition and Consumer Commission (ACCC) Chair Allan Fels noted that the power of the Big Four auditors is “unchecked, untransparent, invisible”. As Ferguson summarised: “They’re making huge profits from auditing the same companies they’re consulting. It’s risky business.” Furthermore, she notes, “97 per cent of the audit work of the country’s biggest 300 listed companies are done by the big four.”

In many cases, KPMG is signing off on wrongful accounting, including in cases where it was being paid to consult for and audit the same firm. Fels told 7.30 that consultancy and auditing must be separated, or the economy could fail:

“There’s a lack of competition. All big business is audited, here and overseas, by the big four and no one else can get in.

“Once they just did audit, and the aim was to report accurately and that was it.

“Now they are involved in multiple other activities, consulting, advice, and so on, which compromised their relationship with the firm being audited.

“We know that the global financial crisis of 2008 was partly triggered by bad auditing, and *I have deep*

fears that something similar could occur to topple the global and the Australian economy in the coming period. [Emphasis added.]

“There needs to be a breakup of the big audit firms. Nothing less than a breakup will do. Self-regulation won’t work, nor government regulation. Go for a clean break.”

Ferguson reported on the parliamentary inquiry into the structure and oversight of the auditing/consulting sector, chaired by Labor Senator Deb O’Neill, who appeared slamming the “failure of regulatory oversight”.

The market knows best...?

The push to privatise public policymaking began in earnest in the 1990s after most Western states were ravaged by neoliberal economic reforms. The policy takeover originated with a doctrine known as New Public Management (NPM) which formed in the late 1970s, particularly under British Prime Minister Margaret Thatcher. It was aimed at reversing the growth of government and increasing the power of the private sector in a fast-globalising world.

NPM was based on the ideology that governments should not interfere in the economy; rather, best performance would be achieved by leaving decisions to the “market”. But deferring to the market has just cleared the way for private business to loot the public purse. As the aforementioned whistleblower pointed out, it has led to unacceptable business behaviour.

Under the thumb of the international think tank that distributed the ideas that gripped Thatcher and her government, the Mont Pelerin Society and its offshoots, it was New Zealand which took up the privatisation mandate and modelled NPM for the world. (Details are provided in [“What would it take for Labor to restore the public service?”](#), AAS, 25 May 2022.) Australia wasn’t far behind.

Greens Senator for South Australia Barbara Pocock, who pushed for establishment of the current Senate Inquiry into auditing/consulting, has taken aim at the destruction of government policy and private sector profiteering. In an article posted by Pearls and Irritations on 24 August, “The Big 4, government procurement and the rivers of gold”, she decried the fact that “public sector jobs have languished in number”, but at the same time “spending of taxpayer dollars has rocketed upward, with mass outsourcing of key functions like strategy, management, policy development and the design and allocation of entire government programs. This reflects the conservative aversion to the public sector”, she said, “and its enthusiasm for large public troughs of easily accessible dollars for private business.

“The Big 4—KPMG, EY, PwC and Deloitte—have voraciously fed upon, and energetically enlarged these opportunities. Their take of taxpayer funds increased by more than 1,270 per cent over the past decade.” Pocock noted the “endless stream of examples of inappropriate procurement practices” that have poured into the inquiry, exacerbated by the current system: “The panel system that narrows the number of bidders for types of work advantages big consultancies over smaller businesses. Too many projects are not subject to competitive bidding at all.

“We need to reduce contracting and rebuild public sector capacity. This includes the capacity to design, conduct and evaluate government services across all agencies.”

Political Amnesia

The destruction of public sector capacity was addressed in a 2015 *Quarterly Essay* by journalist Laura Tingle entitled “Political Amnesia: How we forgot how to govern”. Including important details on how Australia adopted the new management style, Tingle particularly homed in on the loss of institutional memory and expertise which has come from stripping the public sector. This has made it extremely difficult to make the right decisions and to recover from policy errors, which have only grown in number since her essay was written. “It is hard to change habits”, Tingle wrote, “...when people don’t remember that things can be done differently.” The most powerful weapon in a cabinet discussion with a minister is often “a first-person recollection of what happened the last time something was tried”, she wrote.

Discussing the inability to “provide services to many Australians who cannot provide for themselves”—foreshadowing Robodebt, Covid decision making and countless other scandals—Tingle noted that, “The delivery of these services has become ‘invisible’ to us because it has been contracted out.” Their effectiveness or efficacy cannot be assessed. Referring to her own profession, the media, Tingle adds that the loss of specialist reporters in Canberra is another loss of institutional memory. Journalists with no obligation “to know the history of an issue” are no help at all in uncovering the truth of outsourced policy mistakes, she says. They are merely relegated by lack of context “to see the story in black-and-white terms”.

Footnotes

1. ["Outsourcing of government made PwC scandal inevitable"](#), AAS, 17 May; ["Neoliberalism on trial in expanded PwC scandal"](#), AAS, 26 July.

By Elisa Barwick, Australian Alert Service, 6 September 2023

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