

2023

Senate Standing Committees on Finance and Public Administration - Inquiry into management and assurance of integrity by consulting services

RESPONSE TO SUBMISSION NO. 5 AND RELATED TESTIMONY
HEATHER WATSON
2 JULY 2023

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Context

Professional background

My name is Heather Watson. I am a Fellow of Chartered Accountants Australia and New Zealand, which recognises my contribution to the accounting profession.

- I have held various governance roles over the past decade within this organisation, including chair and vice chair of the State Council and being elected to an international role representing New South Wales' 30,000 members in member oversight of the Chartered Accountants Board.
- I have also over my career developed materials for the Chartered Accountants Program, a globally recognised industry qualification, including the provision of public sector specific content and content on ethical requirements applicable to accountants.
- I have been a regular speaker at accounting, auditing and other conferences on technical topics and explored concepts such as professional scepticism and professional judgement.

My public sector financial and budgetary reporting expertise is recognised within KPMG and in the public sector consultancy market. I have more 30 years' accounting and auditing experience, with significant expertise in public sector reporting that includes a decade at the NSW Audit Office including where I was the lead auditor of the State's whole of government financial reporting and of the State's budgetary reporting information. My experience also includes over eight years at KPMG providing consultancy services to public sector agencies. In my advisory roles I have twice directly supported the New South Wales Parliamentary Budget Officer with his work on State budget and forward estimates projections.

Relevant provision of consultancy services

I was the KPMG Partner who led services to NSW Treasury in respect of the NSW Government's Transport Asset Holding Entity (TAHE) reforms. These services commenced in February 2020 and ended 31 December 2021. Services provided in the period February to November 2020 have been the subject of submissions and testimony.

At the time I led these services, I was the national public sector lead for KPMG's CFO Advisory practice and focussed most of my service delivery on New South Wales agencies. In this role, I supported government agencies on their financial and budgetary reporting.

Reason for the response

The submission and testimony include claims about me and my work. Claims are also frequently made about KPMG, which by extension relate to me and my work.

I thank the Committee for the opportunity to respond. I also recognise the importance of accurate information to enable robust findings by the Committee.

Focus and structure of the response

The views within this response are entirely my own and cannot be taken to represent the views of KPMG or any other party.

I am responding to adverse comment that pertains only to me within:

- a submission from Emeritus Professor James Guthrie AM FCPA, Professor Jane Andrew CPA, and Dr Erin Twyford CA
- testimony provided by Emeritus Professor James Guthrie AM FCPA.

I address each item in turn and provide detailed responses to support my assertions.

My response is limited to my public defence of my professional reputation and integrity. I do not offer a view on the legitimacy or efficacy of the government's use of consultants. I do not wish to comment on the views of others on this same topic.

Summary of response content

The Committee has received a submission from Emeritus Professor James Guthrie AM FCPA, Professor Jane Andrew CPA, and Dr Erin Twyford CA. The Committee heard testimony from the authors on 2 May 2023.

The supplementary submission inaccurately describes my work and so reflects badly on me. I reject any adverse connotation conveyed by the inaccurate descriptions. The descriptions of my work are so far removed from the facts of the circumstances as to be wholly inaccurate.

Professor James Guthrie's testimony included factual inaccuracies in respect of my work that reflect badly on me. I reject any adverse connotations arising from these inaccuracies.

At all times, my work reflected the need for compliance with relevant professional requirements.

I have no wish to criticise the authors of the submission or witnesses. It is reasonable and foreseeable that conclusions based only on what is in the public domain could be compromised due to lack of information. It is important that the Committee has accurate information to enable robust findings. It is for this reason that I set out further information for the Committee. Key points within the detail of my response include:

- Consultants' work cannot enable non-compliance accounting standards because compliance is required pursuant to legislation.
- Consultants' work is confidential due to ethical and contractual requirements rather than a result of secretive behaviour.

Detailed responses to Submission no. 5

The Committee has received a submission from Emeritus Professor James Guthrie AM FCPA, Professor Jane Andrew CPA, and Dr Erin Twyford CA that has been published on as submission no. 5 on the Committee's website. I am responding to content within supplementary submission 5.1.

The supplementary submission inaccurately describes my work and so reflects badly on me. I reject any adverse comment contained within inaccurate descriptions. At all times, my work reflected the need for compliance with relevant professional requirements.

The descriptions of my work are so far removed from the facts of the circumstances as to be wholly inaccurate.

I have no wish to criticise Professor Guthrie or his colleagues. In testimony, Professor Guthrie acknowledged that his views are based only upon information in the public domain. It is reasonable and foreseeable that conclusions based on limited public information could be compromised due to lack of information.

It is important that the Committee has accurate information to enable robust findings. It is for this reason that I set out further information for the Committee. I confirm that provision of this information does not breach my confidentiality obligations.

Compliance with accounting standards

The submission states that KPMG provided consulting services that enabled manipulation of asset values so that TAHE would not be required to comply with specific accounting standards. This assertion cannot hold true for the following reason.

NSW public sector entities are required to comply with the requirements of the *Government Sector Finance Act 2018*. These requirements include preparation of annual financial statements prepared in accordance with Australian Accounting Standards. It is simply not possible that consultants' advice could enable non-compliance with either accounting standards or applicable legislation.

Scope of advice

The submission states that the NSW Government established TAHE as a statutory state-owned corporation on the advice of KPMG. This assertion cannot hold true for the following reason.

The NSW Government had independently determined to establish TAHE as a State Owned Corporation and had enacted relevant legislation in April 2017. KPMG's services in respect of TAHE implementation commenced after this date. It is not possible that KPMG advice was behind the Government's decision to establish TAHE.¹

Fees

The submission states that KPMG received over \$30 million for establishing TAHE and references a NSW Auditor-General's Report to Parliament on government agencies' use of consultants² as the basis for this figure. This statement is inherently false for the following reasons:

- The NSW Auditor-General's Report to Parliament on use of consultants did not identify any amounts whatsoever in respect of TAHE's establishment³. The source quoted is invalid.
- A separate Auditor-General's report to Parliament, being a report into the establishment of TAHE, identified that the total amount paid to 16 consulting firms over the extended period of 2014-2021 was \$22.56 million⁴. It is not possible that that KPMG received over \$30 million in connection with TAHE establishment.
- This same Auditor-General's report on TAHE identified KPMG contracts with a combined value of \$3.4 million, which is clearly markedly different to \$30 million⁵.

¹ Further exploration of this topic occurs in respect of the testimony response.

² Auditor-General's Report to Parliament: NSW government agencies' use of consultants, March 2023 [NSW government agencies' use of consultants | Audit Office of New South Wales](#)

³ Auditor-General's Report to Parliament: NSW government agencies' use of consultants, March 2023 [NSW government agencies' use of consultants | Audit Office of New South Wales](#)

⁴ Section 4.2, Auditor-General's Report to Parliament: Design and implementation of the Transport Asset Holding Entity, January 2023 [Design and implementation of the Transport Asset Holding Entity | Audit Office of New South Wales \(nsw.gov.au\)](#)

⁵ Section 4.2, Auditor-General's Report to Parliament: Design and implementation of the Transport Asset Holding Entity, January 2023 [Design and implementation of the Transport Asset Holding Entity | Audit Office of New South Wales \(nsw.gov.au\)](#)

Detailed responses to testimony from Inquiry hearing

The Committee held a public hearing on 2 May 2023 in which it received testimony from Emeritus Professor James Guthrie AM FCPA. I am responding to content within Professor Guthrie's testimony.

Professor James Guthrie's testimony included factual inaccuracies in respect of my work that reflect badly on me. I reject any adverse connotations arising from these inaccuracies.

I have no wish to criticise Professor Guthrie. In testimony, Professor Guthrie acknowledged that his views are based only upon information in the public domain. It is reasonable and foreseeable that conclusions based on limited public information could be compromised due to lack of information.

It is important that the Committee has accurate information to enable robust findings. It is for this reason that I set out further information for the Committee. I confirm that provision of this information does not breach my confidentiality obligations.

Scope of work

Professor Guthrie's testimony outlined his argument that the big consulting firms sell an idea and put forward KPMG's work in respect of TAHE as an example of such 'idea selling', which is an entirely inaccurate assertion about my work. He also referred to the idea of TAHE in pejorative terms. In combination, the testimony reflects badly on me and I wish to furnish the facts:

The 'idea' to establish a commercial entity was that of the NSW Government:

- The NSW Government flagged the potential for reforms in the 2013-14 Half Yearly Budget Review⁶.
- In the 2014-15 Budget, the NSW Government confirmed in-principle approval for re-organisation of RailCorp and articulated the rationale for converting RailCorp into a standalone business to manage and construct public transport capital infrastructure⁷.
- In the 2015-16 Budget, the NSW Government confirmed that from 1 July 2015, a new Transport Asset Holding Entity would be established to streamline the delivery of public transport asset management⁸. The reforms were identified as building on reforms that commenced in November 2011⁹.
- The NSW Government introduced a bill to give effect to its policy reform in March 2017. Proposed legislation enabling the establishment of TAHE as a State Owned Corporation passed through both houses of the NSW Parliament and was assented in April 2017¹⁰.

At no time had KPMG provided advice in respect of this policy decision of the NSW Government.

I reject any assertion or inference that I developed and sold any idea that could be referred to as a "vehicle for deception", a "fabrication" or "selling a myth". My work in connection with TAHE:

- commenced after the NSW Government had enabled its reforms with legislation evidencing its decision to establish TAHE
- was restricted to assistance with implementation considerations and focussed on the implications of the application of applying existing legislative and policy frameworks.
- was for the purpose assisting agencies meet their financial and budgetary reporting obligations.

⁶ Box 2.1 2013-14 Half Yearly Budget Review [2013-14 Half-Yearly Budget Review \(nsw.gov.au\)](https://www.nsw.gov.au)

⁷ Box 5.2 Budget Statement, Budget paper 2 [2014-15 Budget Paper No. 2 - Budget Statement \(nsw.gov.au\)](https://www.nsw.gov.au)

⁸ Chapter 1, section 1.1, Budget Statement, Budget Paper 1 [2015-16 Budget Paper No. 1 - Budget Statement \(nsw.gov.au\)](https://www.nsw.gov.au)

⁹ Box 1.1, Budget Statement, Budget Paper 1 [2015-16 Budget Paper No. 1 - Budget Statement \(nsw.gov.au\)](https://www.nsw.gov.au)

¹⁰ [Transport Administration Amendment \(Transport Entities\) Bill 2017 \(nsw.gov.au\)](https://www.nsw.gov.au)

The 'so-called' power of consultants inside the public sector in the case of TAHE was limited to helping to implement reforms that were entirely a decision of the Government. Any assertion that greater influence was wielded by a consulting firm is baseless.

Confidentiality and transparency

I reject any inference that I behaved secretly or sought to limit transparency.

In testimony, Professor Guthrie asserted that the consulting partnerships are "very secretive" about their work. Further, Professor Guthrie effectively asserted that "there was a real issue about transparency" in respect of work conducted by KPMG.

The simple fact is that the work of consultants for the NSW Government is not in the public domain for ethical and contractual reasons:

- The Code of Ethics for Professional Accountants contains a fundamental principle of confidentiality¹¹. It would be a breach of the Code for consulting firms to make public the outputs of their work or information obtained in the performance of their work.
- The Standard terms applicable to consulting services provided to the NSW government require that service providers do not disclose confidential information¹², which includes the outputs of the work, and information obtained in the performance of their work.

At all times, I upheld the confidentiality requirements of the Code of Ethics for Professional Accountants. At all times, I maintained compliance with contractual confidentiality terms.

I reject any inference that my use of 'Cabinet in Confidence' created an issue with transparency and parliamentary democracy.

- Professor Guthrie's testimony inferred that the use of 'Cabinet Confidence' created an issue with transparency and democracy. I reject any such inference. The use of Cabinet in Confidence in respect of my work reflected compliance with requirements and is not evidence of secretive behaviour.
- Various material generated in the course of my work was appropriately identified as Cabinet in Confidence when it was to be used by the public sector to help inform advice to Government on implementation of TAHE. The confidentiality of such material is a requirement that supports longstanding conventions and practices of the Government¹³. I reject any inference that my use of Cabinet in Confidence was inappropriate. Further, my compliance with requirements cannot be used as evidence of so-called secretive behaviour.

Professor Guthrie also referenced another KPMG partner's use of Cabinet in Confidence in the context of KPMG's reports in respect of TAHE. Setting aside a baseless description of the individual as "rainmaker", I can confirm that the relevant individual was not part of any delivery team in respect of TAHE services or reports on trains. As such, an assertion of there being any sort of transparency issue in respect of TAHE related work is not supported by the evidence provided.

¹¹ Section 110.1 A1(d), R114.1, APES 110 Code of Ethics for Professional Accountants (including Independence Standards), compiled December 2022 [Compiled APES 110 \(Dec 2022\) \(apesb.org.au\)](https://www.apesb.org.au/Compiled-APES-110-(Dec-2022))

¹² Clause 12 Disclosure within the Standard Form of Agreement contained within the Scheme Rules for the SCM0005 Prequalification Scheme: Performance and Management Services, June 2023 [Performance and Management Services Scheme | info.buy.nsw](https://www.buy.nsw.gov.au/Performance-and-Management-Services-Scheme)

¹³ NSW Cabinet Practice Manual [Cabinet Practice Manual - Premier & Cabinet \(nsw.gov.au\)](https://www.nsw.gov.au/cabinet-practice-manual), M2006-08 Maintaining Confidentiality of Cabinet Documents and Other Cabinet Conventions [M2006-08 Maintaining Confidentiality of Cabinet Documents and Other Cabinet Conventions \(nsw.gov.au\)](https://www.nsw.gov.au/m2006-08-maintaining-confidentiality-of-cabinet-documents-and-other-cabinet-conventions)