



Federal Contracts Awarded to McKinsey & Company (January 1, 2011, to February 7, 2023): A Review by the Treasury Board of Canada Secretariat and Public Services and Procurement Canada

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Executive summary

In January 2023, the Prime Minister requested that the President of the Treasury Board and the Minister of Public Services and Procurement Canada undertake a review of federal contracts awarded to McKinsey & Company (McKinsey). The Treasury Board of Canada Secretariat (TBS) and Public Services and Procurement Canada (PSPC) subsequently reviewed all contracts awarded to McKinsey from January 1, 2011, to February 7, 2023, by departments and agencies that are subject to the *Directive on the Management of Procurement*.

The 10 departments that had contracts with McKinsey undertook internal audits, performed by each organization's independent internal audit unit, and produced individual departmental audit reports.

These departmental audits found no evidence of political interference in the contracts awarded to McKinsey and no evidence that the integrity of the procurement process was not maintained.

However, the audits found that certain administrative requirements and procedures were not consistently followed. For example, some procurement files had insufficient or missing documentation and there were errors in the reporting of contracts according to the requirements for proactive publication.

Where opportunities for improvement were identified, such as in relation to how the government procures certain specialized services such as benchmarking, the departmental audit reports include a Management Action Plan that outlines specific measures that departments are taking to improve their internal procedures and practices.

While the audits examined contracts with a single supplier over a specific time frame, TBS and PSPC have taken this opportunity, after considering additional information including the proceedings of the Standing Committee on Government Operations and Estimates (OGGO), to identify broader actions they can take, consistent with their respective mandates, to strengthen procurement policy, guidance and training, as well as implementation practices and contracting approaches across the federal government. Distinct from this review of McKinsey contracts, the federal government also announced in Budget 2023 its commitment to reducing spending on professional services.

TBS and PSPC will continue to work together to ensure that departments and agencies are supported in their ability to procure goods and services, and that appropriate risk-based controls are in place to meet public expectations for procurement across the Government of Canada, which are to achieve best value for Canadians in a fair, open, and transparent manner. Work will also continue to renew the Government of Canada's Integrity Regime.

The information obtained in this review may also support ongoing external reviews by the Office of the Procurement Ombudsman and the Office of the Auditor General of Canada. TBS and PSPC continually look to strengthen their procurement policies, practices, and community, and will welcome any findings of these external reviews.

Procurement in the Government of Canada

In any given year, the federal government, on average, enters into over 350,000 contracts for goods and services. Based on data provided by departments through proactive publication on contracts that had a value greater than \$10,000, 91% of the total value of service contracts, including professional services, was awarded on a competitive basis in 2021–22.

Contracts must be issued according to laws, regulations, trade agreements and Treasury Board policies. Deputy heads, as accounting officers, are responsible for ensuring that their organizations have the appropriate controls, oversight, and processes in place for contracts that their departments administer. As of May 2021, each department and agency must have a senior designated official for the management of procurement who is responsible for establishing, implementing, and maintaining a procurement management framework that aligns with legislation and Treasury Board policy.

PSPC and Shared Services Canada (SSC), in their roles as common service providers, support departments and agencies in their daily operations by contracting on behalf of departments and agencies, as well as providing access to procurement expertise and specialized contracting mechanisms.

PSPC procures a wide range of goods and services for over 100 government departments and agencies. It has exclusive authority for procurement under the *Department of Public Works and Government Services Act*. For efficiency, the Minister partially delegates this authority to other departments. This mandate for procurement gives PSPC a leadership role in federal procurement, which includes:

- overseeing the development and deployment of government-wide strategies

- designing modern processes and tools to preserve the integrity of the federal procurement system

TBS's mandate includes providing advice and making recommendations to the Treasury Board on how the government spends money on programs and services, how the government regulates, and how the government is managed. As part of this mandate, TBS, through the Office of the Comptroller General:

- sets the administrative framework, through policies and directives, that establishes the responsibilities that deputy heads are accountable for in managing procurement
- supports sound practices by maintaining and building professional communities through various recruitment, training and development activities

Accountability and oversight of the procurement process

All departments and agencies have important responsibilities for their procurements. Accountability and oversight of procurement processes for all federal contracts, including professional services contracts, is shared between TBS and PSPC or SSC as common service providers, and departments and agencies.

Processes for procurement are upheld by controls that are commensurate with the level of risk associated with each contract. For example, if a contract is high-risk because of its value and complexity, specific actions can be taken or requirements put in place to support how the contract is managed, such as:

- departments establishing specific governance for individual procurements to oversee the strategy and manage the delivery of the contract
- having PSPC or SSC enter into a contract on behalf of a department or agency to provide additional oversight and controls

In addition, Treasury Board approval is required for contracts that exceed a department's contracting limits.

Departmental internal auditors can audit their departmental procurement processes and control frameworks. As set out in Treasury Board policy, such audits are to be posted on a department's website (with some exceptions that would pose a risk to security).

There are also independent bodies that can contribute to overseeing procurement. For example:

- the Office of the Procurement Ombudsman, which reports to Parliament through the Minister of Public Services and Procurement Canada, investigates complaints about the administration of federal contracts
- the Office of the Auditor General, which serves Parliament by providing it with objective, fact-based information and expert advice on government programs and activities, gathered through audits
- the Canadian International Trade Tribunal, which reports to Parliament through the Minister of Finance, investigates procurement complaints that are subject to Canada's trade agreements

Further, there are specific mechanisms to help maintain the principles of fairness and accountability in procurement. PSPC's Fairness Monitoring Program provides client departments, government suppliers, Parliament and Canadians with independent assurance that PSPC conducts its activities

in a fair, open and transparent way. The program requires consideration for using an independent, third-party fairness monitor for competitive procurements where certain criteria apply, such as Treasury Board approval, or for high-complexity or high-risk procurements. Fairness monitors are also used for other procurements, as appropriate. In practice, independent third-party fairness monitors:

- observe all or part of a procurement activity
- provide impartial opinions on the fairness, openness and transparency of the activities in reports that are publicly available on the PSPC website

In addition, PSPC administers the Integrity Regime, which is a government-wide suspension and debarment program designed to help ensure that the federal government does business with ethical suppliers in Canada and abroad:

- under the Integrity Regime, a supplier may be suspended or declared ineligible to do business with the Government of Canada if it has been charged with or convicted of one of the offences listed in the Ineligibility and Suspension Policy or convicted of similar offences abroad
- in developing the Integrity Regime, PSPC consulted and continues to engage with industry associations and independent experts to continually improve its tools and processes

Finally, departments and agencies are required to proactively publish contracts over \$10,000, as well as standing offer agreements and supply arrangements.

Review of contracts with McKinsey

On January 11, 2023, the Prime Minister tasked the President of the Treasury Board and the Minister of Public Services and Procurement Canada to:

- review contracts awarded to McKinsey
- examine whether the contracting processes used complied with Treasury Board policy and departmental internal control frameworks

On February 8, 2023, TBS asked departments subject to the *Directive on the Management of Procurement* to identify and undertake an internal audit of their contracts with McKinsey from January 1, 2011, to February 7, 2023. Ten departments identified that they had either entered into or acted as the contracting authority for 39 contracts with McKinsey. These contracts included 19 that were awarded in the form of call-ups against a non-competitive standing offer established by PSPC with McKinsey for specialized benchmarking services.

Each department's independent internal audit function completed their audit in conformance with the Institute of Internal Auditors' professional standards as set out in the International Professional Practices Framework. All internal audit units of the 10 departments produced reports by March 27, 2023, and all were published on March 30, 2023.

These audits examined procurement practices for contracts with a single supplier (McKinsey) over a specific time frame to determine the extent to which:

1. the integrity of the procurement process was maintained, consistent with adhering to the *Values and Ethics Code for the Public Sector* and the *Directive on Conflict of Interest*

2. the procurements were conducted in a fair, open and transparent manner, consistent with the Treasury Board policy that was in place at the time (Contracting Policy or the Directive on the Management of Procurement)
3. the procurements were conducted in a manner consistent with the organization's internal processes and control frameworks (that is, consistent with procurement management frameworks, financial controls, and security controls)

Where the departmental audit reports identified opportunities for improvement, they included a Management Action Plan that outlines specific measures being taken to improve specific internal procedures and practices.

TBS and PSPC also considered other relevant information regarding professional services procurement, including:

- practice reviews by the Office of the Procurement Ombudsman conducted between 2018 and 2023
- the testimony and observations from the 2023 OGGO study on federal contracts awarded to McKinsey.
- a jurisdictional scan of peer nations' best practices

TBS and PSPC used the results of the review to determine whether there were opportunities to strengthen broader policy areas or procurement practices. The review also provided an opportunity to highlight recent actions, as well as those underway, that TBS and PSPC are taking, consistent with their respective mandates, to strengthen federal procurement policy, guidance, and training, as well as implementation practices and contracting approaches across the federal government.

In addition, the Minister of Public Services and Procurement has asked the Procurement Ombudsman to review the procurement practices associated with contracts awarded to McKinsey. That review is in progress.

Results of the review

The integrity of the procurement process was maintained

Maintaining the integrity of the federal procurement process is critical for Canadians to have confidence in the Government of Canada.

The audits of departments that had contracts with McKinsey revealed no evidence of political interference. Consistent with departmental risk-based systems of controls, almost all contracts were approved by procurement officers and appropriately awarded in a manner consistent with the contracting limits and delegations of the department administering the contract. In the two cases this did not occur, it was due to a technical administrative error where a more senior official should have approved based on the nature of the contract.

The departmental audits found that some departments have established good practices that meet or exceed Treasury Board policy requirements. For example:

- several departments have established procurement review committees or similar governance to provide an additional level of risk-based oversight to procurements
- PSPC is among the departments that have recently established a procurement review committee, with a particular mandate to review, recommend and incorporate sound stewardship considerations into federal procurement

- some departments were found to have sound policies and practices to enforce values and ethics commitments, as well as requirements in competitive processes where bidders must identify any former public office holders that are associated with their respective bids

Challenges in procurement administration (continual improvement of procurement practices)

The departmental audits found no evidence that the integrity of the procurement process was not maintained. However, they found that some administrative requirements were not consistently followed, including:

- the order in which procedures are expected to be followed (such as additional work not starting on a contract until an amendment is signed)
- departmental governance requirements (such as oversight by the departmental procurement review committee)
- ensuring invoices provide sufficient details of the work completed or accomplished

These types of administrative issues were found across a number of procurement files in multiple departments. In response to audit findings, departments will take steps to address these issues in their respective Management Action Plans. Some of the challenges identified were indicative of broader administrative issues, and several departments' Management Action Plans highlight areas of ongoing improvement that are underway.

The Government of Canada has been continually taking steps to modernize and improve how it manages all its procurements. Most notably, TBS introduced the new *Directive on the Management of Procurement* in May 2021

that strengthens the management of procurement by establishing a requirement for deputy-appointed senior designated officials in each department. These officials are responsible for:

- implementing and maintaining a departmental procurement framework that consists of processes, systems and controls
- addressing the department's needs for procurement professionals
- supporting the improvement of government-wide procurement tools and practices

This review has reinforced the value of regularly examining departmental systems of controls to ensure that they are effective and provide insights into areas of improvements to strengthen procurement practices.

Action

TBS:

- has updated the *Directive on the Management of Procurement* to require senior designated officials for the management of procurement to have a risk-based system of internal controls that are maintained, monitored and reviewed to provide reasonable assurance that procurement transactions are carried out in accordance with the departmental procurement management framework and applicable laws, regulations and policies
- will update the *Guide to Internal Control Over Financial Management* to help departmental chief financial officers strengthen key internal control frameworks by enhancing the regular review and testing of procurement controls as part of departments' overall financial controls

PSPC, as a common service provider and central purchasing agent for the Government of Canada, also has a significant role in administering federal procurements. Among its responsibilities, PSPC:

- establishes procurement instruments, including supply arrangements and standing offers, to streamline the procurement process by pre-qualifying suppliers who meet mandatory criteria, such as corporate capability and/or financial criteria, allowing wide use by client departments for commonly acquired goods and services.
- is the government's procurement centre of excellence that supports the operational elements of procurement administration with tools, guides and a supply manual that identifies and explains best practices for public servants

In the context of the review of federal contracts awarded to McKinsey, 19 contracts awarded to the company were call-ups awarded to the supplier under a standing offer established by PSPC for specialized benchmarking services. The internal audit of PSPC's contracts with McKinsey found that the integrity of its procurement processes was maintained and complied with Treasury Board policy. However, the audit found that there were deficiencies in following established procedures and documentation for client requirements and justifications, which limited PSPC's ability to demonstrate that it had fulfilled its responsibilities as a common service provider.

Action

PSPC, in its capacity as common service provider for federal procurement, has committed to:

- updating its policy guide, processes and tools to clearly reflect its role in ensuring the integrity of the procurement process through

a robust challenge function

- reviewing federal procurement instruments for specialized benchmarking services to ensure that they follow the principles of fairness, openness and transparency
- strengthening its quality control process to identify risks associated with meeting key federal procurement policies and procedures
- revising its policy guide to clarify accountabilities for procedures and documentation noted in the review

Audit findings reinforced the need to continue to invest in the professional development of the procurement community. Procurement specialists are responsible for planning and executing the acquisition of materials, supplies, equipment, and services that support the delivery of government programs, while providing best value to the Crown. Specialists also provide policy interpretation and advice on existing and proposed policies, ensuring that policies, directives and practices are understood and remain current and relevant.

In its role as community steward, TBS will continue to help departments build capacity and strengthen professionalization of the federal procurement community to reinforce best practices and mitigate the types of administrative errors identified in this review.

TBS's continued support will include helping departments to:

- recruit skilled professionals
- update the list of skills and behaviours procurement professionals are expected to have
- advance the planned modernization of mandatory training for all procurement professionals

- support senior designated officials for the management of procurement with best practices and lessons learned from the overall findings

Specific actions for professional development are also identified in the relevant sections below.

Documentation

Through complementary directives, TBS sets out the requirements for departments to manage information, including procurement documentation, to support transparency and oversight and uphold departments' legal obligations. For example:

- the *Directive on Service and Digital* identifies departments' responsibilities to establish, implement and maintain retention periods for all types of information and data, as appropriate, according to format
- the *Directive on the Management of Procurement* sets out responsibilities for ensuring that accurate and comprehensive procurement records on the contract file are maintained to facilitate management oversight and audit, where applicable

The internal audit reports found that documentation management was an issue with most departments' contracts with McKinsey. This finding is consistent with the Office of the Procurement Ombudsman's overall procurement practice reviews, which observed issues with:

- insufficient documentation to support a specific procurement strategy
- documentation completed in an incorrect order
- insufficient documentation to support the evaluation of bids

These administrative errors indicate that the responsibilities of departments set out in the *Directive on the Management of Procurement* need to be reinforced and applied consistently.

Action

TBS has amended *the Directive on the Management of Procurement* to clarify documentation requirements for contracts. These amendments will reinforce departmental contracting authorities' responsibility to create and maintain accurate and comprehensive procurement records applicable to the contracting file to:

- facilitate management oversight and auditing
- demonstrate that procurements are being conducted fairly, openly and transparently

This responsibility includes maintaining a copy of the duly executed contract on file, as well as documentation on the rationale for selecting a non-competitive procurement strategy, as required. These requirements are in addition to the existing requirement to maintain documentation on the justification for a limited tendering process in accordance with applicable trade agreements

In May 2022, PSPC incorporated requirements for electronic file documentation for procurements into the *Supply Manual*. These requirements are to:

- establish a more organized approach to procurement
- ensure that anyone reviewing the file can locate documents with minimal effort

PSPC will revisit these guidance tools once TBS has amended its *Directive on the Management of Procurement*. PSPC also requires a procurement file checklist, which was established in September 2022.

Sound information management practices are critical in federal procurement, and complete and comprehensive documentation is essential to show that procurements are conducted in a fair, open and transparent manner. TBS will continue to strengthen the information management capacity and competencies of procurement professionals. Doing so will build on previous efforts in this area, such as TBS's *Government of Canada Procurement Community Competencies* (2018), which sets out documentation preparation, file management and information management as procurement functional competencies.

Action

- TBS will review the Government of Canada Procurement Community Competencies framework and work with procurement specialists across departments and agencies to ensure that competencies in document management are understood and remain current and relevant
- PSPC will build on recent policy work by developing and providing further guidance and training on procurement information management. Following the implementation of these measures, PSPC will review a sampling of procurement files to validate the measures' effectiveness

Official languages in procurement

Respect for Canada's official languages is integral to respecting the rights of every Canadian. In procurement, departments and agencies must adhere to their legal obligations under the *Official Languages Act* to ensure that Canadians' right to be heard and understood in the official language of their choice is upheld.

Although adherence to Treasury Board policy on official languages was not an element of departments' internal audits, OGGO raised several questions and observations on the use of official languages in federal contracting during its study of federal contracts awarded to McKinsey, particularly with respect to how the language for deliverables is established and how the language rights of public servants are respected.

Under the *Directive on the Management of Procurement*, senior designated officials for the management of procurement must ensure that the departmental procurement management framework facilitates compliance with all legal obligations, including official languages:

- where departments are required to communicate with the public in both official languages, the directive requires that communications with suppliers be actively offered in both official languages, including verbal communications and written documents
- contracting authorities must publish any publicly posted notices, solicitations and invitations to tender and bid documents in both official languages; English and French versions must be posted simultaneously and be of equal quality to give equal opportunity to both English- and French-speaking suppliers

In November 2022, TBS published its *Guide to Official Languages in Federal Procurement*, which outlines legal obligations, policy requirements and practical advice for departments on official languages in federal

procurement. There is an opportunity to reinforce TBS's guidelines and ensure that they are well understood by procurement specialists.

Action

- TBS has updated its *Guide to Official Languages in Federal Procurement* to clarify expectations for procurement officials regarding how the language rights of public servants and contractors are respected in the solicitation and administration of contracts.

Contract security

Each administrative step in developing and managing a contract can have implications regarding security requirements. These requirements should be documented, and security controls should be implemented and monitored at all stages of the procurement process to provide reasonable assurance that:

- information, individuals, assets and services are adequately protected
- the security implications of the goods and services being procured are explicitly examined

Security in contracting, specifically, the scope and use of the Security Requirements Check List (SRCL), has been identified as an opportunity for improvement and enhancements are underway.

The departmental internal audits indicated that:

- some documentation of security clearances for consultants was either incomplete or missing from the procurement file

- there was confusion about whether the client department or PSPC is responsible for confirming the security status of contractors

As part of its review of the roles and responsibilities between PSPC and client departments outlined in the *Supply Manual*, PSPC will seek to clarify the respective accountabilities for the security requirements of the contract.

Security screening has also been identified for several years as an area for improvement. Efforts are ongoing, unrelated to the internal audits of McKinsey contracts, to modernize security screening policy and service delivery across the Government of Canada to:

- reduce the time needed to hire
- facilitate diversity and inclusion
- improve the Government of Canada's security posture

These efforts include measures that clarify and improve security screening of contractors, as well as improve documentation and verification of individuals' clearance level.

Improving the procurement of specialized benchmarking services

Procurement instruments, including supply arrangements and standing offers, are an important tool for streamlining the procurement process. They provide client departments with access to pre-qualified suppliers that have already met mandatory criteria, such as corporate capability and/or financial criteria. Recognizing ongoing demand from departments and agencies for specialized benchmarking services, and given the proprietary nature of these services, PSPC established standing offers on a non-competitive basis with five benchmarking suppliers, including McKinsey.

PSPC's internal audit found that it was unable to determine, based on documentation on file, whether the use of the standing offer with McKinsey for benchmarking services was the best instrument to meet client department requirements.

Noting that the current standing offers for benchmarking services are expiring between February and September 2023 (the standing offer with McKinsey expired February 2023), PSPC introduced new processes, including a robust challenge function and higher-level approvals, for any remaining non-competitive standing offers for benchmarking services.

PSPC is now:

- consistently seeking sole-source justification for each contract
- validating that the client's statement of work aligns with the scope of the standing offer

Action

As part of PSPC's ongoing work to provide effective services to departments while ensuring fair, open and transparent procurement processes, PSPC will:

- undertake a review and develop a replacement to the expiring standing offers for benchmarking services centred around the principle of open, fair and transparent competition. An important first step is industry engagement through a Request for Information to obtain feedback on how new instruments could be developed.
- revise guidance and tools for documentation requirements for non-competitive standing offers

Opportunities to improve transparency

The proactive publication of contracts helps Canadians understand what the federal government is procuring:

- the *Access to Information Act* requires departments and agencies to complete five data fields for contracts, and Treasury Board policy requires an additional 32 required data fields to be completed, with four additional fields being implemented to provide greater detail to Canadians
- since 2017, departments and agencies have been required to proactively publish information on contracts and amendments over \$10,000 in a centralized and machine-readable database on the Open Government portal
- the *Guide to the Proactive Publication of Contracts* supports departments in meeting their reporting requirements by providing guidance to managers and functional specialists on identifying, collecting, reporting and publishing contract information.

Some of the internal departmental audits found issues concerning the accuracy, completeness and timely publication of contracting information. TBS and PSPC also observed these issues in their review of contracting data provided by departments. An assessment of the data that departments proactively publish on the Open Government portal found that, although consistent with the guide, the descriptions of professional services contracts were described in only general terms and that additional context would be beneficial.

Action

TBS:

- has amended the *Directive on the Management of Procurement* to require senior designated officials to establish risk-based internal controls that ensure the accuracy, completeness, and timely proactive publication of contracting information
- has updated the *Guide to the Proactive Publication of Contracts* to require greater transparency in large professional services contracts greater than \$1 million by requiring departments to provide additional details in contract descriptions

In 2022–23, the Government of Canada introduced the CanadaBuys website as the single point of access for tenders for:

- federal, provincial and territorial governments
- municipalities, academic institutions, schools and hospitals

The CanadaBuys website improves transparency in procurement by providing suppliers with a central and more intuitive platform to search for and bid on government procurement opportunities.

The Government of Canada’s suppliers

Questions have been asked of government regarding the suppliers it conducts business with, including considerations of potential conditions for participating in public procurement.

In April 2023, TBS amended the *Directive on the Management of Procurement* to include new requirements to integrate human rights, the environment, social and corporate governance, and supply chain transparency principles in federal procurement processes. These requirements include following the *Code of Conduct for Procurement* for all Government of Canada

procurements. The code sets expectations of vendors for ethical conduct and stipulates that bidders must disclose potential conflicts of interest, which is mandatory for all Government of Canada procurements.

The Government of Canada continues to take steps to strengthen and safeguard the integrity of the federal procurement system and mitigate the risks posed by suppliers of concern.

Action

In support of work underway to further safeguard the integrity of the procurement system, PSPC will review the conditions for participation in federal procurements to:

- better understand who the Government of Canada does business with
- further mitigate new and emerging risks posed by suppliers of concern

Considerations when contracting for professional services

The category of professional services is broad and covers a range of services the government procures to address specific needs related to a particular activity or initiative. These services can include:

- technical, scientific or professional expert assistance and advice (for example, lawyers, architects, engineers, medical personnel, and management, audit, financial and business consultants)
- certain healthcare, welfare and training services
- operational and maintenance services

Throughout the review and from related studies, questions have been raised about how departments make the decision to contract for professional services. Ultimately, the decision to contract rests with deputy heads, who are responsible for their department's investment and resourcing decisions.

However, there is an opportunity to support departmental managers, who are sub-delegated contracting responsibilities, with guidance on procuring professional services that sets out key considerations when deciding whether to contract for professional services, as well as when structuring the professional services procurement and managing the contract.

Action

TBS will issue a considerations-based guide for managers that can be referred to when using contracted professional services

Conclusion

All departments and agencies have an important role to play in federal procurements. Accountability and oversight of procurement processes for all contracts, including professional services contracts, is shared across the federal government between TBS, PSPC or SSC as common service providers, and departments and agencies. These processes are safeguarded by controls that are commensurate with the level of risk for each contract awarded by the federal government.

The departmental internal audits of McKinsey contracts revealed no evidence of political interference, and we found no evidence of unethical behaviours or practices in the process examined for contracts awarded to

McKinsey.

The review has reinforced that there are always opportunities to improve the Government of Canada's practices. Departments have taken, and are taking, steps as outlined in their respective management actions plans. From a system-wide perspective, the targeted actions outlined in this report that are collectively underway by TBS and PSPC aim to strengthen procurement practices across departments and agencies.

The Government of Canada remains committed to continuous improvement and will take appropriate action should there be additional findings from the review by the Office of the Procurement Ombudsman and the audit by the Auditor General.

Date modified:

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