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Internal Audit of Federal Government Consulting Contracts Awarded to McKinsey & Company

March 2023 - Department of Finance Canada

Conformance with professional standards

This internal audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Marie-Josée Yelle

Acting Chief Audit Executive

Background

Procurement in the Government of Canada (GC) is subject to the Directive on the Management of Procurement (and the now rescinded Contracting Policy prior to May 13, 2022) ¹, which has as its objective to ensure that procurement of goods, services and construction obtains the necessary assets and services that support the delivery of programs and services to Canadians, while ensuring best value to the Crown. As a result, among others, procurements are expected to enable operational outcomes, to be

subject to effective governance and oversight mechanisms, to be fair, open, and transparent, and to meet public expectations in matters of prudence and probity.

The Prime Minister tasked Minister Fortier, as President of the Treasury Board (TB), along with Minister Jaczek, Minister of Public Services and Procurement, to undertake a review of contracts awarded to McKinsey & Company (McKinsey). On February 8, 2023, the Office of the Comptroller General (OCG) requested from government organizations, by February 15, 2023, a list of all contracts with McKinsey dating back to January 1, 2011, as well as related information on these contracts. For those organizations that have been the technical authority and/or entered into any such contracts as the contracting authority, the OCG has directed the Chief Audit Executives (CAEs) of these organizations to conduct a formal independent internal audit of the related procurement processes, with results to be reported to the OCG by March 22, 2023.

Audit objectives and scope

Audit objectives

The objectives of the audit were to determine the following for all scoped-in contracts with McKinsey:

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 (TB) Policy that was in place at the time (Contracting Policy or the Directive on the Management of Procurement); and

3. The procurements were conducted in a manner consistent with the organization's internal processes and control frameworks (i.e., consistent with procurement management frameworks, financial controls, security controls).

Audit scope

The scope of the audit focused on the examination of the procurement practices for all competitive and non-competitive contracts ² with McKinsey that were awarded (i.e., signed) by the organization between January 1, 2011, and February 7, 2023.

The audit did not assess:

- All contracts with any entity other than McKinsey.
- All contracts awarded (and signed) outside of the audit period.
- Compliance with any other policy instrument, laws and/or regulations not specifically mentioned in this audit report.

On January 18, 2023, the Standing Committee on Government Operations and Estimates (OGGO) adopted a motion requesting documents from all departments, agencies and crown corporations related to contracts with McKinsey. In the cover letter of its submission to OGGO on February 22, 2023, the Department of Finance Canada referenced the following contracts and agreements involving McKinsey that fell within the scope period (see Appendix A):

1. 6014758 - Research Services for the Task Force for the Payments System Review (2011)
2. Letter of Agreement (2016-17) ³
3. Letter of Agreement (2017-18) ³
4. Letter of Agreement (2019) ³

5. Contract(s) between the Canadian Development Investment Corporation (CDEV) and McKinsey ⁴
6. Contract(s) between the Bank of Canada and McKinsey ⁵
7. Contract(s) between the Trans Mountain Corporation and McKinsey) ⁵

Scope limitation

Between January 1, 2011, and February 7, 2023, the Department of Finance Canada (the Department) awarded a single contract to McKinsey & Company (McKinsey), on June 22, 2011. The Department indicated it retained basic information related to the contract in its financial system, which has already been shared with the OGGO, as follows:

- The Description of Work: “The Task Force requires the services of a Contractor to assist in transforming the various inputs and analyses into a coherent statement about the preferred future for the payments system in Canada (Conceptual Framework for the Evolution of the Canadian Payments System). The Consulting firm is to provide senior resources for the provision of expert advice and to oversee the required work and analyst resources to conduct the required research and analysis.”
- The total contract value was \$743,000, including taxes; however, the total expenditures were \$642,431.
- The contract was awarded following a request for proposals on MERX. Three proposals were received, and McKinsey was deemed the only compliant bid.
- The McKinsey vendor contacts were Eric Monteiro and Leslie Wood.

In keeping with the applicable six-year record retention period and relevant records disposition authorities, the Department disposed of contract-related records in 2018. The internal audit team confirmed its

understanding of records retention-related requirements with departmental officials and Library and Archives Canada.

As part of its due diligence, the internal audit team inquired into the existence of any additional documentation on the contract with the Financial Sector Policy Branch. No records were located. The internal audit team also worked with the Information Management and Information Technology Directorate (IMTD) to run records searches on the 2011 contract, and further inquired into the existence of any related documentation with Public Services and Procurement Canada (PSPC). At the time this report was finalized, neither IMTD nor PSPC had located any additional documentation.

Findings and recommendations

As per the scope limitation (see Audit scope) in relation to the 2011 contract, files were disposed in 2018 in accordance with records disposition authorities. As a result, the internal audit team was unable to review documentation, and could not conclude on audit objectives or issue recommendations.

Management response

The scope limitation in this report was presented to management of the Department of Finance Canada. Management has accepted the scope limitation.

The audit report was reviewed and recommended for approval by the external Department of Finance Canada's Departmental Audit Committee members and approved by senior management.

Michael Sabia

Deputy Minister of Finance

Appendix A: Scoping considerations

| | Contract or Agreement ⁶ | Scoped in (Y/N) | Rationale |
|---|---|------------------------|---|
| 1 | 6014758 - Research Services for the Task Force for the Payments System Review | Y | Met criteria for inclusion in this engagement (as a contract awarded to McKinsey within the scope period), but could not be assessed due to documentation having been disposed in accordance with retention periods |
| 2 | Letter of Agreement (2016-17) | N | Did not meet criteria for inclusion in this engagement (given it was awarded to an individual) |
| 3 | Letter of Agreement (2017-18) | N | Did not meet criteria for inclusion in this engagement (given it was awarded to an individual) |
| 4 | Letter of Agreement (2019) | N | Did not meet criteria for inclusion in this engagement (given it was awarded to an individual) |
| 5 | Contract(s) between the Canadian Development Investment Corporation (CDEV) and McKinsey | N | Did not meet criteria for inclusion in this engagement (given it was awarded by another entity to McKinsey) |

| | Contract or Agreement ⁶ | Scoped in (Y/N) | Rationale |
|---|---|------------------------|---|
| 6 | Contract(s) between the Bank of Canada and McKinsey | N | Did not meet criteria for inclusion in this engagement (given it was awarded by another entity to McKinsey) |
| 7 | Contract(s) between the Trans Mountain Corporation and McKinsey | N | Did not meet criteria for inclusion in this engagement (given it was awarded by another entity to McKinsey) |

Footnotes

- 1 On April 11, 2019, the contracting limits for organizations and PSPC were updated to reflect a 25% increase to account for inflation (Appendix C in the Contracting Policy). Also, note that the Directive on the Management of Procurement came into effect May 13, 2021 and that the Contracting Policy was fully rescinded May 13, 2022.
- 2 Per the Policy on the Planning and Management of Investments, a contract is defined as "A binding agreement entered into by a contracting authority and a contractor to procure a good, service or construction."

- 3 The Letters of Agreement (LoAs) between the Department of Finance Canada (the Department) and Mr. Dominic Barton, then McKinsey & Company Managing Partner, did not meet the criteria for inclusion in this audit as they were with an individual and not with McKinsey. Documents related to these Agreements were included in the Department of Finance's submission to OGGO based on a broad interpretation of the Committee's January 18, 2023 motion.
- 4 The Department also jointly administered a project where the Canadian Development Investment Corporation (CDEV) was the contracting authority. The CDEV contract did not meet the criteria for inclusion in this audit.
- 5 The Bank of Canada and Trans Mountain Corporation, Crown corporations (crowns) within the Minister of Finance's portfolio, awarded contracts to McKinsey. Contracts entered into by crowns did not meet the criteria for inclusion in this audit.
- 6 Crown corporations, and other crowns that have awarded contracts to McKinsey across government, have been encouraged to complete reviews in the spirit of this engagement.

Date modified:

2023-03-30