



19 December 2023

Patrick Hodder  
Committee Secretary  
Senate Finance and Public Administration References Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Committee Secretary,

**Senate Finance and Public Administration References Committee  
Questions on Notice received on 27 November 2023**

We refer to the Questions on Notice from Senator Deborah O'Neill in her role as a member of the Committee received on 27 November 2023, with a due date of 19 December 2023. We provide our responses below.

Please contact me if you would like to discuss our response.

Yours faithfully,

Jan McCahey  
Chief Risk and Ethics Leader  
PwC Australia



## **Questions on Notice directed to PwC Australia**

- 1. Has PwC Australia ever considered, created a cost benefit assessment for, or modelled the impact of shifting from a Partnership to a Corporation model?**
  - a. Did this analysis or consideration include judgement on profitability?**
  - b. Did this analysis consideration include judgement on operational indemnity?**
  - c. Please provide this analysis.**

As with all business organisations, PwC Australia actively monitors legislative and regulatory developments and changes to our operating environment to make sure our business is structured appropriately. PwC Australia is not aware of a cost benefit assessment for or modelling regarding the impact of shifting PwC Australia from a partnership to a corporation.

- 2. In relation to the meeting between Mr Luke Sayers and Mr Hirschorn 3 September 2019 in which Mr Hirschorn claimed he urged Mr Sayers to personally review PwC Australia's internal emails, as per the ATO timeline;**
  - a. Please provide the "additional documents" referred to in section 1.40 of the PwC Australia Statement of Facts regarding the Collins breach of confidentiality title 'The minutes of the Board meeting record', which the statement of facts states relate to Sayer's conversation with Hirschorn. If full documentation cannot be provided, please only provide those relevant to the Collins investigation and Sayers/Hirschorn conversation.**
  - b. Please provide relevant sections of the additional documents referred to in section 1.41 of the PwC Statement of Facts. These include 'notes prepared in advance of the governance Board meeting' which relate to the Sayers/Hirschorn conversation.**
- 3. In relation to the attempted 2017 investigation of Peter Collins in section 1.56 of the Statement of Facts, please provide relevant international meeting notes, meeting attendance, and all surrounding correspondence from PwC Australia OGC and Risk teams.**
  - a. Please provide the meeting notes or evidence relied upon in the 'Statement of Facts' to claim that Mr Collins was questioned at the time.**

PwC Australia has published relevant information contained in these internal documents in its Statement of Facts. PwC Australia is mindful of the ongoing inquiries being conducted by various authorities which PwC Australia is fully cooperating with. In deference to those inquiries, PwC Australia will not provide further details than what is contained in its Statement of Facts.



4. **Please provide to the committee the 'Terms of Reference' for the Switkowski review.**
  - a. **Please provide contract signed by Dr Ziggy Switkowski and PwC Australia.**
  - b. **Please provide the internal correspondence, meeting notes and attendance surrounding the creation of the 'Terms of Reference' for the Switkowski Report.**
  - c. **Please provide the correspondence between PwC Australia and Dr Ziggy Switkowski regarding the request for engagement and execution of contract.**

The terms of reference for Dr Switkowski AO's Independent Review were published alongside the Independent Review on 27 September 2023. The terms of reference were created by PwC Australia and finalised in consultation with Dr Switkowski. To assist the Committee, we have provided the terms of reference at **Attachment A**.

Correspondence relating to the request for Dr Switkowski to perform the Independent Review contains confidential and commercially sensitive information which PwC Australia does not intend to release.

5. **Please provide any communication, meetings attendance, correspondence, or notes relating to interactions between PwC Australia employees and Government Ministers between 2012 and 2022. If there are too many instances to list, please prioritise interactions with the Prime Minister, Treasurer, Assistant Treasurer, or Minister for Financial Services, or Finance Minister.**

As a large firm which has employed tens of thousands of people between 2012 and 2022, PwC Australia has regularly engaged with members of parliament through various forums, events and other formal and informal interactions over a long period of time, as is common for businesses across Australia. Given the scope of this request and the number of people employed by PwC Australia during the relevant period, it is impossible to provide a complete and accurate picture of every interaction.

We note that historically some of these interactions would have taken place through political fundraising bodies, and these interactions have involved senior ministers on both sides of politics from Prime Ministers down. In 2023, in light of changing community expectations, PwC Australia made the decision to stop making political donations and stop attending political fundraising forums.



**6. Please provide all documents pertaining to ‘Project Kookaburra’ including analyses, prospectuses, letters of support, meeting notes between Bob Moritz and Luke Sayers, and any other relevant documentation.**

PwC Australia considered the commercial opportunities around the possible sale of the consulting business in the lead up to 2019 before deciding to take no action on this front. Internal documents relating to Project Kookaburra contain confidential and commercially sensitive information which PwC Australia does not intend to release.

PwC Australia remains committed to the multidisciplinary model – a model we would have maintained regardless of the possible sale of the consulting business.

- 7. How many entities exist under the PwC Australia banner?**
- a. How many ABNs are affiliated with PwC Australia?**
  - b. How many ABNs are affiliated under the PwC Australia Audit and Assurance services?**
    - i. Is it possible for PwC Australia staff to move between ABNs affiliated under PwC Australia Audit and Assurance services?**
    - ii. Have any PwC Australia auditors resigned after being investigated by the regulator?**
      - Have any of the subsequent auditors since continued working with PwC Australia but for another PwC entity?**

The total number of entities and ABNs affiliated with PwC Australia can vary from time to time due to a number of factors, such as the acquisition of some entities, or the divestment or disposal of others. Different types of entities exist within the PwC Australia group to address business needs (for example, our Australian consulting business entity is part of our regional ASEANZ consulting joint venture), as well as regulatory and legal requirements (for example, a standalone entity is used for any work requiring an Australian financial services licence). These entities have obtained ABNs in order to carry on business. The ABNs of entities in the PwC Australia group are publicly available at [abr.business.gov.au](http://abr.business.gov.au).

PwC Australia’s audit and assurance services are provided through PricewaterhouseCoopers (ABN 52 780 433 757) which is the PwC Australia partnership. Staff providing audit and assurance services are employed by PricewaterhouseCoopers Services Pty Limited as trustee for the PricewaterhouseCoopers Services Trust (PwC Services) (ABN 59 082 982 554). When an individual is promoted to partner, they cease to be an employee of PwC Services and become a partner in the PwC Australia partnership.

With regard to 7(b)ii, auditors are subject to inspections or investigations by regulators as part of the ongoing regulatory oversight of the profession. The most common example in Australia is ASIC’s audit inspection (since 2023 referred to as audit surveillances) where key audit areas are reviewed. ASIC publishes a report with their findings on an annual basis, and auditors of listed or public interest companies from any audit firm could be selected for an



ASIC audit surveillance. Auditors may retire or resign from their role as part of the normal course of their careers, and an auditor's subsequent retirement or resignation at some stage in the future may be for entirely unrelated reasons. Additionally, it is not always apparent who ASIC is investigating or when an investigation has ceased.

However, to assist the Committee, we have conducted a search for partner retirements after an ASIC investigation in recent years. One individual retired as an auditor in 2017 following an investigation by ASIC, which received media coverage at the time. This individual is no longer a partner in the firm, and is no longer a practising auditor within our audit business. For completeness, this individual is now a PwC Australia staff member in an internal non-client facing role.



## Questions on Notice directed specifically to Jan McCahey

- 1. What changes in audit quality, corporate ethics and workforce culture have you observed in your time at PwC? Please account for the changes throughout the years and how these have coincided with the leadership of Luke Sayers, Tom Seymour, Kristin Stubbins, and Kevin Burrowes.**

During the more than 20 years I have been with PwC, I have observed significant change and strengthening of the framework for corporate reporting and auditing in Australia. While I was not working in the Australian firm during the period 2015-2019, I remained a close observer and my reflections below touch on changes in the industry and within our firm. When I returned to PwC Australia in 2019, I was appointed Risk and Quality Leader for the Assurance business and in July 2023, I assumed the role of the firm's Chief Risk and Ethics Leader and am a member of the firm's Management Leadership Team.

### Changes to our operating environment

Some of the more significant step changes have included the adoption of International Financial Reporting Standards in 2005, Australian Auditing Standards becoming legally enforceable for audits or reviews of financial reports required under the Corporations Act 2001 (Corporations Act) in 2006, and the increased focus on audit file reviews as part of ASIC's inspection program from 2006. Ongoing enhancements have been and continue to be made to both accounting and auditing standards and since 2013 certain firms, including PwC Australia, have been required by the Corporations Act to publish audit transparency reports. Recent times have seen a stronger focus both internationally and in Australia on the standards expected for audit quality management by firms as well as on reforms aimed at strengthening auditor independence and related disclosure requirements.

The combination of this external framework, as well as standards set by the PwC global network, means the significant investment in and commitment to audit quality required to meet these expectations could not have been overridden by the firm's CEO, despite the authority provided to them under the firm's partnership agreement. Instead, the leaders of the Assurance business have held a strong focus on audit quality over time, demonstrating commitment to upholding best practice and continuous improvement. It was acknowledged by the findings of Dr Ziggy Switkowski AO that "PwC Australia's Assurance business has a system of quality control that supports audit quality"<sup>1</sup> and his remark that the firm's Assurance business appears "substantially to model best practice".<sup>2</sup>

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<sup>1</sup> Dr Ziggy Switkowski AO. (2023, September 27). *Independent Review of Governance, Culture and Accountability at PwC Australia*, page 34. Retrieved from <https://www.pwc.com.au/about-us/commitments-to-change/independent-review-of-governance-culture-and-accountability-at-pwc-australia.pdf>

<sup>2</sup> Ibid, page 6.



### Striving toward best practice

My sense is that, as an Assurance business, we have been on a journey of continuous improvement over the period from 2012 to today. I have seen a consistent desire from our Assurance leaders for our audit quality framework, systems, policies and practices to at least keep pace with changes in regulation, the requirements of professional standards, and stakeholder expectations. Our audit quality framework and related policies satisfy regulatory and professional obligations as well as the standards set by the PwC global network. The combination of these requirements means our system of quality management addresses governance and accountability, ethics, independence and conflict management, people and other functional processes.

During 2012-2020, I observed PwC Australia's firm leadership develop a clear focus on the strategic importance of audit quality, evidenced by the then-CEO Mr Sayers' personal engagement with the leadership of ASIC and a focus on understanding their views on the quality of the firm's audit work. This 'tone from the top' was reflected in the introduction of several initiatives focused on enhancing audit quality. One example is our approach to establishing and reporting a balanced scorecard of audit quality, first published in May 2019, to show how we were performing against a range of measures that contribute to an assessment of audit quality. It incorporates matters such as assessments of audit files undertaken by peer teams across the PwC network, file review findings by ASIC and the US PCAOB, as well as client feedback, and the incidence of adjustments needed to client records identified by audit teams. Another example is our initiative to establish our Audit Quality Advisory Board (AQAB) to provide counsel and constructive challenge to our approach to audit quality. Established in 2019, the AQAB has recently delivered its fourth annual report. All recommendations offered in that time have been accepted and addressed.

These embedded practices formed a strong foundation for Assurance leaders subsequently appointed by Mr Seymour, Ms Stubbins and Mr Burrowes. For example, as the COVID-19 pandemic disrupted markets, businesses and professional engagements, the impact of remote working and other challenges required new approaches to auditing be adopted. As noted in our 2020 Transparency Report, as we moved into the June 2020 reporting season, our message to our teams was that their wellbeing, health and safety and the quality of our audit work were our non-negotiable priorities. We strived to make sure our client deadlines were met once we were comfortable these first two priorities were achieved. This involved minimising internal discussions or meetings that didn't relate to wellbeing or quality and, in a small number of cases, asking clients to extend their reporting timetables because we needed more time to complete their audit.

In 2020, the Assurance business undertook a culture review relating to audit quality from which we identified three critical behaviours – Courage, Humility and Realism – that we would prioritise to foster the culture that would help us achieve our quality goals. We have been working hard to embed these behaviours ever since, including measuring their impact through staff surveys and through partner and staff quality feedback.



Our more recent audit quality initiatives and our ongoing quality framework are summarised in PwC Australia's [FY23 Audit Transparency Report](#).

#### Our commitment to corporate responsibility

As well as being transparent about the quality of our audit work, we focused on sharing our progress on meeting evolving community and stakeholder expectations on matters relating to corporate responsibility. In 2018, we first disclosed our gender pay gap, and in 2019 the average effective tax rate of our partners.

Building on these steps we published our first firmwide transparency report under Mr Seymour's leadership in FY21, providing detailed information on a range of matters relating to what our businesses do and how we do it, and sustainability more generally. Like many other large businesses, we have a strengthened focus and ongoing commitment to sustainable performance and have aligned our sustainability framework to the World Economic Forum International Business Council (WEF IBC) Stakeholder Capitalism Metrics. In March 2022, the firm appointed its inaugural Chief Sustainability Officer to lead our firm's sustainability efforts. Our disclosures are based on the four areas of Governance, People, Prosperity and Planet.

More information about our ongoing commitment on these matters are summarised in PwC Australia's [FY23 Firmwide Transparency Report](#).

#### Wellbeing, diversity and inclusion

Prioritising our people's health and wellbeing and upholding a commitment to diversity and inclusion are central to our workforce culture. Our policies and working practices have adapted to meet the needs of our people and societal expectations over the past 20 years and we continue to set ambitious targets in these areas so we remain accountable for our progress. For example, since 2015 we have had in place a gender diversity target for partnership admissions of 40:40:20 (40 percent female, 40 percent male, 20 percent any gender identity) plus a target of 20-30 percent of partners being from a diverse cultural background. We updated these targets in FY21 to be for the whole partnership, rather than just yearly admissions, and re-focussed them with a target of 40 percent of all partners being women, and 20-25 percent of all partners from a non-European diverse cultural background by 2025. In FY22, we also introduced new firmwide diversity metrics for people with disability, LGBTIQ+ representation, and First Nations peoples. I note some of our partnership diversity targets were not met in FY23 because of the deferral of 1 July partner admissions. Nonetheless, the Management Leadership Team that I am now a part of remains committed to the targets previously set and delivering on them will remain a key focus in FY24.

#### Firm structure and culture

Mr Sayers led the firm in a 'One Firm' centralised model and prioritised a focus on establishing and embedding firm-wide values. Mr Seymour introduced a more business-led





model which allowed each of our three businesses – Assurance, Financial Advisory and Consulting – to operate with a considerable degree of autonomy.

Dr Switkowski's independent review notes the firm's cultural hallmarks are consistent with our aspiration to be an organisation where people feel safe, included and respected, but also identifies that our three businesses have developed their own cultural identities and that our collegial culture inhibits constructive challenge. I acknowledge the insights from Dr Switkowski's review. As I had been working within the Assurance business since returning to PwC Australia in 2019, my experience has been primarily of that business, including its efforts to embed a behaviour of having courage to challenge others.

Over the past six months, under the leadership of Ms Stubbins and then Mr Burrowes, I have observed the firm moving back towards a more 'One Firm' way of working with a renewed commitment to addressing the 'shadow' parts of PwC Australia's culture. The Management Leadership Team is working hard to deliver changes to improve the culture of the firm and is committed to putting purpose and values at the core of everything we do.



**2. How did you feel when the PwC Peter Collins tax matter was revealed?**  
**a. What was your practical response as a long term senior leader at PwC Australia?**

I first learned about the issue involving Mr Peter Collins when the Tax Practitioners Board media release came out on 23 January 2023.<sup>3</sup> I was very surprised because it was inconsistent with my own experiences within the firm.

At the time, I was the Assurance Risk and Quality Leader. My practical response was to ask questions of the firm's leadership, however, as was made clear in the PwC Australia Statement of Facts, the severity of these issues were downplayed and the facts were not adequately represented.

Later, in May 2023, when the internal PwC emails were made public (which I was not previously aware of), I remember being shocked and encouraged senior leaders to urgently investigate the matter.

In July, I took on the role of Chief Risk and Ethics Leader and have been leading a program of work to strengthen risk and conflict management and accountabilities.

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<sup>3</sup> Tax Practitioners Board. (2023, January 23). *Former PwC partner banned for integrity breach* [Media release]. Retrieved from <https://www.tpb.gov.au/former-pwc-partner-banned-integrity-breach>



## Attachment A: Terms of reference for the Independent Review of Governance, Accountability and Culture

Confidential



### *Terms of reference for the Independent Review on Governance, Accountability and Culture*

#### **Background**

On 9 March 2023, the Senate referred an inquiry into the management and assurance of integrity by Consulting Services provided to the Federal Government for inquiry and report by 26 September 2023 (the Inquiry). In response to these matters and in line with announcements PricewaterhouseCoopers (PwC) is seeking to undertake a review of frameworks and practices relating to Governance, Accountability and Culture (the Review).

#### **Scope**

PwC will appoint an Independent Expert to undertake the Review of the following key areas of focus:

- *Governance* – The roles and responsibilities of key governance boards/committees and the way in which decisions are made, including how financial objectives, values and strategic priorities have an impact on decision-making and risk-management, and how decisions, once made, are implemented.
- *Accountability* – The way in which partners and staff discharge their roles and responsibilities both on an individual and collective basis, the remuneration and incentive arrangements and their impact on accountabilities, and the application of consequence management.
- *Culture* – The system of values and behaviours throughout PwC that shape the collective approach to managing risk, making decisions and our stakeholders.

It is expected the Review considers the areas of focus outlined below, feedback from the Senate Inquiry and the outcomes of the Bruce Quigley review into the design effectiveness of tax governance and internal control framework.

The assessment of governance, accountability and culture is to be completed by reference to the point of time at which the Expert commences their fieldwork. However, we recognise documentation and other artefacts relating to specific matters may be required to inform the findings.

#### **Approach**

It is expected that the Independent Expert would undertake a range of activities to evaluate to Governance, Accountability and Culture arrangements including documentation review, interviews, case studies and focus groups to:

- assess the strengths and shortcomings regarding the embedment and effectiveness of PwC's governance, accountability and culture frameworks, arrangements and practices;
- develop findings for PwC to address the observed gaps in culture, governance and accountability.

It is expected the Review considers the assessment considerations outlined in Appendix A.

#### **Deliverables**

The key outcome of the Review would be a written report by 18 August 2023 (or such other date as agreed) which sets out the Expert's:

- observations and findings in relation to PwC's governance, accountability and culture arrangements
- recommendations as to how to address the above observations and findings.

#### **Conflicts of Interest**

PwC requires confirmation that you or your firm do not have any conflict of interest which may adversely affect your ability to perform the Review services.



## Appendix A - Assessment Considerations

<i>Focus Area</i>	<i>Description</i>
<b>Role of the Board</b>	<ul style="list-style-type: none"> <li>• Governance structure including composition, diversity of skill and experience of members</li> <li>• Appointment and selection processes</li> <li>• The Board operations and rhythm</li> <li>• Roles, responsibilities, and accountabilities</li> <li>• Reporting, information, and escalation of issues from and to management (including of the related tax matters)</li> <li>• The effectiveness of Board scrutiny and challenge</li> <li>• Coordination between Board Audit, Risk and Remuneration Committees</li> <li>• Ongoing review of Board effectiveness</li> </ul>
<b>Senior Leadership Oversight</b>	<ul style="list-style-type: none"> <li>• Clarity of accountability for management of the organisation</li> <li>• Appropriateness of risk oversight and escalation</li> <li>• Tone at the top / consistency of messaging with stated values</li> <li>• Appropriateness of investment prioritisation and governance (including approval)</li> <li>• Quality of management information to enable and evidence effective decision making</li> <li>• Customer/stakeholder focus in decision making and effective consideration of perceived and actual conflicts</li> </ul>
<b>Risk Governance and Conflicts of Interest</b>	<ul style="list-style-type: none"> <li>• Adequacy and maturity of risk management, ethics, compliance and conflicts frameworks and arrangements</li> <li>• Adequacy of risk, ethics and compliance structure and personnel (including capacity, capability, and reporting lines)</li> <li>• Clarity of accountabilities and delegations</li> <li>• Adequacy of risk, ethics and compliance training, education, and reinforcement</li> <li>• Appropriateness of risk systems and tools</li> </ul>
<b>Issues Management</b> (with reference to recent tax matters)	<ul style="list-style-type: none"> <li>• Assess adequacy of issues management, breaches, and processes for reporting to the regulator</li> <li>• Assess adequacy of the identification, management and reporting of trends and systemic issues</li> <li>• Effectiveness and adequacy of issues reporting</li> <li>• Adequacy of the regulatory engagement framework and approach</li> <li>• Effectiveness of the organisation in detecting, investigating, escalating, and remediating issues relating to the conduct of Partners / staff by reference to the PwC Code of Conduct and applicable professional standards.</li> </ul>
<b>Remuneration and Consequence Management</b>	<ul style="list-style-type: none"> <li>• Design of performance and remuneration framework including KPIs as well as both short and long term incentives</li> <li>• Adequacy of the linkage between KPIs (short and long-term) and performance outcomes incentivising the right behaviours and discouraging behaviours out of line with our values</li> <li>• Clarity and execution of consequence management framework and approach</li> <li>• Appropriateness of governance and oversight of remuneration outcomes</li> <li>• Do risk personnel have adequate stature to facilitate effective management of conflicts</li> </ul>
<b>Culture and Leadership</b>	<ul style="list-style-type: none"> <li>• Strategic clarity, tone from the top, and role modelling of desired behaviours at all levels</li> <li>• Extent to which the operating environment drives a proactive approach to risk management and ethical decision making</li> <li>• Reliance on people versus process strengths to management</li> <li>• Adequacy of recognition mechanisms in place that reinforce the desired behaviours</li> <li>• Adequacy of the culture of review and challenge</li> </ul>