Senate Standing Committees on Finance and Public Administration

Inquiry into management and assurance of integrity by consulting services (Consulting services)

KPMG responses to Questions on Notice from Senator Barbara Pocock received on 20 March 2024

In-kind and pro-bono services

Q1. Please provide in excel format the following:
a. The details of all in-kind or pro-bono services offered to Federal Government Departments and agencies in the last 5 years.
b. The estimated value of the services provided.
c. A brief description of the services provided.

KPMG response

Our people make an important contribution to our communities through their day-to-day work, their involvement in skilled volunteering and mentoring programs, and their participation in on-the-ground volunteering activities with our national, state and community stakeholders. Last year alone our [2023 Impact Plan] reported that we delivered 116 pro bono engagements valued at approximately $6.5 million.

We have reviewed our pro bono engagements over the last 5 years with Federal Government departments and agencies and can confirm the following engagement at Table 1 was funded from our centralised Corporate Citizenship pro-bono program:

	Table 1: Federal pro-bono engagement	**Description**	**Value**
FY22	She's Price(d)less – Prepared with Diversity Council Australia (DCA) and the Workplace Gender Equality Agency (WGEA)	Report examines the economics of the gender gap	$103,052

We also provide pro bono support to state and territory governments and councils that are facing unprecedented challenges due to natural disasters. Please see some examples of this support at Table 2.

	Table 2: Examples of other pro-bono engagements in support of natural disasters	**Description**	**Value**
FY20	Bushfire response – Bushfire Recovery Victoria – Department of Premier and Cabinet	Support for Bushfire Recovery Victoria to enable the rapid establishment of the organisation. KPMG provided people on secondment to support various establishment activities, develop communications materials, assist in the early stages of program design and set up customer relationship systems and processes.	$155,625

FY20	Bushfires response – NSW Disaster Recovery office	Short term secondment at the request of the department to assist with program management office support.	$53,414
FY19	Townsville floods response- Queensland Department of Communities, Child Safety and Disability Services	Townsville Floods secondment support - KPMG seconded people into the Queensland response team that assisted with validation of applications and data processing to enable timely disaster grant payments.	$86,415

In addition, KPMG Law is subject to the National Pro Bono Target which is a voluntary and aspirational commitment of at least 35 hours of pro bono work per lawyer per annum. The Attorney-General sent an open letter to Commonwealth Legal Services Panel providers in July 2023 outlining the Commonwealth's ongoing commitment to the target[1].

Outside our centralised Corporate Citizenship pro bono program, KPMG may from time to time provide other pro-bono services to organisations albeit these would be small in number. We note that best practice government procurement often includes provisions for knowledge transfer and we often undertake activities to share knowledge and expertise to facilitate this outcome.

Partner earnings and Everett schemes

Q2. Please provide in excel format the following:

a. The amount earned by KPMG partners in FY22-FY23.
b. The amount of taxable income earned by KPMG partners in FY22-FY23.
c. The collective average level of personal tax paid by partners at KPMG.
d. The number of partners in total at KPMG who use Everett assignments and service trusts to minimise tax.
e. The proportion of partners at KPMG who use Everett assignments and service trusts to minimise tax.
f. The range of income for each KPMG partner going into an Everett assignment, as a percentage and in monetary value.
g. The amount of tax forgone as a result of partners at KPMG using these tax minimisation schemes.

Q3. As reported in the AFR on the 12th of February, a KPMG spokesman said that "less than 20 per cent" of your approximately 700 partners use Everett assignments. Will KPMG prohibit the use of Everett assignments by partners, as Deloitte and PwC have done, to ensure that they are paying their fair share of tax?

KPMG response

KPMG refers the Committee to our [2023 Impact Plan] and the sections "Partner remuneration" and "Tax Paid" for further information. The average (mean) remuneration for equity partners in FY23 was $700,000 and we estimate partners paid on average an effective tax rate on profits of 40.3 per cent. To enhance the transparency of these figures, KPMG has engaged an external assurance firm to provide an assessment of FY24 key financial metrics, including taxes paid by the firm and its partners.

Everett assignments

We have strong governance and policies in place to help ensure that tax affairs are conducted in accordance with ATO policy and relevant laws and regulations. KPMG is also subject to the ATO's

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[1] Letter from the Attorney-General to Legal Services Panel Members – Pro bono Target – July 2023 | Attorney-General's Department

Top 500 private groups tax performance program, an intensive ongoing engagement that covers tax governance and risk management for large private groups.

As of June 2023, 121 KPMG partners use Everett assignments, constituting 18 per cent of our national partnership. The amount of partner income that can be assigned using an Everett assignment is 19 per cent. The monetary value of an Everett assignment varies depending on partner income in any given period. The uptake of Everett assignments among new partners continues to be low, and once a partner has entered such an arrangement, they are considered to be irrevocable.

The use of Everett assignments is not exclusive to large professional services firms. They are available to all partnerships in Australia. KPMG will comply with any updated future ATO guidance in relation to Everett assignments, and we regularly review our policies and guidelines to ensure they meet regulatory and community standards.

Service trusts

The use of a service trust is a common commercial structure within professional groups and is accepted by the ATO. Partners directly receive remuneration from the partnership as their personal services income and receipts via the service trust represent a distribution of income as owners of the business.

There are no KPMG partners that use service trusts. KPMG has a service trust, the KPMG Australian Service Trust. As noted by the ATO[2], partner income from the service trust will usually be received by associated individuals or entities, typically partner family trusts, that will distribute the income to beneficiaries who will then pay tax on that income.

Living-away-from-home allowance

Q4. Please provide the total number and the proportion of KPMG staff who are receiving a living-away-from-home allowance (LAFHA).

- ***a. Please confirm if KPMG and its staff who receive a LAFHA follow criteria as set out by the ATO.***

KPMG response

Living-away-from-home allowances were provided to around a dozen people in FY23. Recipients of the allowance were participating in the six-week Jawun Indigenous community support program, completing secondments with Indigenous organisations in communities across Australia. The allowance and any associated fringe benefits tax are paid in line with the relevant ATO guidelines[3].

Profit margins and revenue

Q5. Please provide in excel format the profit margin KPMG made on its $318.4 million of government contracts in FY22-FY23.

Q6. Please provide details of how KPMG measures project margins, and what devices and arrangements KPMG uses to achieve large profit margins on government contracts.

Q7. Please provide your metrics for revenue and what metrics KPMG collects in relation to staffing and employee outcomes and any related metrics related to the workplace.

[2] Document 121, ATO response, 25 March 2024

[3] Living-away-from-home allowance fringe benefits | Australian Taxation Office

KPMG response

KPMG refers the Committee to the Austender website and our previous responses to questions on notice for breakdowns of our engagements.

Profit margins

KPMG's work for Government is broadly comparable in terms of profitability to engagements of a similar nature and scale undertaken in other sectors and reflects the competitive market environment that procures our services.

The profitability of particular services and engagements, whether for Government, private sector or not-for-profit clients, is driven by a range of factors including the nature, size, complexity and duration of the project, the required skills and capabilities to undertake the project and the level of intellectual property and technology invested into the project. Our financial framework manages profitability at a divisional level and we centrally manage unutilised labour and overheads, and accordingly do not calculate margin at a client or engagement level.

As an approved member on government panels, such as the Department of Finance Management Advisory Services Panel, KPMG has provided rate caps that have been assessed to meet value for money in accordance with the Commonwealth Procurement Rules. Further, detailed information about our profit margins is commercial in confidence.

Revenue and employee metrics

KPMG posted revenue in our 2023 Impact Plan of $2.553 billion for the year ending 30 June 2023. Audit, Assurance and Risk Consulting revenues grew by 4% ($671 million); Deals, Tax and Legal revenues were down by 2% ($401 million); Enterprise revenues grew by 23% ($361 million); Infrastructure, Assets and Places revenues grew by 22% ($200 million); and Management Consulting revenues grew by 12% ($745 million).

The 2023 Impact Report also contains workplace metrics across the following areas:

- Engagement index scores;
- Partner gender balance;
- Partner gender pay gap;
- Employee gender pay gap;
- Culturally diverse partners;
- Indigenous people hired;
- Average learning hours per employee; and
- Conduct complaints.

Political donations

Q8. In 2022-23, KPMG donated $163,200 in political donations to the major parties and secured $318.4 million in government contracts over that same time period. KPMG provided in a response to a Question on Notice that, considering the ongoing debate around political donation reform, KPMG is "currently reviewing its Political Donations Policy and has paused all activity".
a. When will this review be complete?
b. Will KPMG ban political donations as PwC Australia has done?

KPMG response

KPMG reports all forms of political donations, including in-kind contributions, event sponsorships and membership fees for political party business forums. No cash political donations are made. Considering the ongoing debate around political donation reform, KPMG reviewed its Political Donations Policy and paused all activity while this review was underway. The outcome of our review will be considered by our National Executive Committee in April 2024.

In FY24 we have spent $15,278 on political donations thus far, which represents activity prior to our decision to review our policy and pause all activity.

<u>**Audited financial statements**</u>

Q9. On the 9th of February, Mr Sheppard said KPMG would be agreeable to an independent published audit of its books so that any issues, and the level of borrowing and the level of knowledge about it, are transparently revealed and considered. To enable this audit, please provide:

a. A comprehensive graphical representation of the KPMG Australia 'group' including all consolidated and any unconsolidated entities and showing the flow of funds across and between the 'group'.

b. A list of each trust, each trustee and trust deed and relevant records of the distributions made in each of the past five financial years.

c. KPMG's complete financial statements for each of the past five financial years and current YTD including details of all assets and liabilities, debt facilities, partner equity capital accounts and all relevant bank statements.

- ***A list of all consolidated entities including the directors and officers, register of shares and list of ultimate natural persons for whom each and every beneficial share is held.***
- ***A list of any unconsolidated entities including the board, shareholding register and list of the natural persons for whom beneficial shares are held.***

d. KPMG Australia's tax disclosure to the ATO in each of the past five financial years.

Q10. Please provide each instance of the 'annual financial statement' provided to all KPMG Australia partners, in each of the past five financial years.

Q11. Please explain and evidence how KPMG Australia's borrowing for operations was excluded from the calculation of partner cash distributions, in each year.

KPMG response

Evidence in hearing

KPMG supports the industry moving to greater financial disclosure, however, this needs to be done in a coordinated, consistent way supported by appropriate regulatory frameworks. Mr Sheppard's statement on 9 February 2024[4] at the public hearing related to our commitment to supporting "consistent transparency standards" and associated governance structures to enable large partnerships to publish audited financial statements:

> **Senator BARBARA POCOCK:** Would you be agreeable to an independent published audit of your books so that any of those issues, and the level of borrowing and the level of knowledge about it, are transparently revealed and considered?
> **Mr Sheppard:** As I said in the opening statement, there is no governance structure over large partnerships at the moment. Yes, I and the board would definitely welcome that.
> **Senator BARBARA POCOCK:** You'd welcome it?

[4] Hansard, Finance and Public Administration References Committee, 9 February 2024

> **Mr Sheppard:** We would. At the moment we're working very hard to try and reach the transparency and the disclosure standards of a public company, notwithstanding the fact we don't have a framework under which to make those reports. One thing that may come out of this committee and other committees at the moment is something akin to that; we certainly see that overseas in the US and the UK.

As outlined in our 2023 Impact Plan, we have engaged an external assurance provider to carry out an independent audit readiness assessment for selected people metrics as an important step in our transparency journey. We are seeking to obtain external limited assurance on these metrics, as well as key financial metrics (taxes paid in FY24 by the firm and its partners and total revenue for KPMG Australia) for FY24.

Annual financial results are communicated to partners annually and financial results are available on an internal internet site. KPMG also provides annual financial statements to third parties who conduct financial assessments on behalf of the Commonwealth. These are provided on a confidential basis.

KPMG Australia entities

KPMG refers the Committee to KPMG's 2023 Modern Slavery Statement and the section "about where we operate"[5]:

> "KPMG operates in Australia through the KPMG Partnership (Australian Partnership) and other associated entities, including KPMG Financial Advisory Services (Australia) Pty Ltd, KPMG Holdings (Australia) Pty Ltd, KPMG Investments (Holdings) Pty Ltd, KPMG Australia Technology Solutions Pty Ltd, and KPMG Australian Services Pty Ltd as trustee for KPMG Australian Service Trust. KPMG Australia also trades in New Zealand through KPMG Technology Solutions (NZ) Pty Ltd, a cyber-security firm. This entity largely provides services from Australia but there continues to be a presence in New Zealand."

The Modern Slavery Statement also reports on KPMG Fiji and KPMG Papua New Guinea, which collaborated with KPMG Australia to form a South Pacific Practice in FY22.

KPMG also refers the Committee to our response to questions on notice received on 27 November 2023. In the response, KPMG lists 31 affiliated ABNs. The affiliated ABNs are also searchable on the Australian Business Register "ABN lookup" website and associated Directors can be found by undertaking a Company search on ASIC's website.

Borrowings

KPMG's borrowings increased by $296 million over the 2-year period 1 July 21 to 30 June 23 – while our revenue in that time also increased by more than $500 million.

The increase in borrowings primarily reflects the working capital required to support the growth in revenue, business acquisitions and investment in transformation programs. Working capital refers to the money available to a company that is immediately available for business use, rather than money it has in investments or property. Our borrowings remain well within our existing financial facilities. Our loan covenant arrangements do not allow us to distribute more than our underlying earnings (profits) in a financial year, therefore we do not borrow to pay partner distributions.

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[5] KPMG Australia's Modern Slavery Statement FY23

<u>Board authority in relation to conduct</u>

Q12. On the 9th of February, Mr Sheppard said "KPMG established guidelines and policies around conduct, performance, culture and renumeration … this includes board authority to act on egregious behaviour".
a. Please provide the source(s) of these policies, including where it says the board has authority to act.
b. Please explain what conduct would constitute egregious behaviour.
c. Please provide whether the board has ever exercised its authority to act in the past 10 years. If yes, please provide details for example, board minutes and communications.

KPMG response

KPMG Australia sets out clear performance and conduct expectations for partners. The remuneration model is designed to drive and reward performance and behaviours consistent with our strategy, Global Code of Conduct[6] and Values. As outlined in our 2023 Impact Plan, 2023 Transparency report[7] and KPMG's publicly released Partnership Agreement[8], our NEC and the Partner Remuneration and Nominations Committee (PRNC) ensure that the system for allocating the profit pool to partners is administered fairly and equitably and is subject to a formal Board approval process. The aforementioned reports contain details on the number of conduct matters.

KPMG's Partnership Agreement is our principal governance document. The Partnership Agreement establishes the policy framework within which our firm operates. The National Board has responsibility and accountability for the stewardship, success and reputation of the firm together with broad powers relating to conduct, performance, culture and remuneration (clauses 7.2 and 7.14).

All partners are bound by the terms of the Partnership Agreement. Clause 5.1 requires that each Partner adhere to legal, fiduciary and ethical obligations, KPMG policies, the KPMG Code of Conduct and KPMG's values. Partner remuneration is variable every year and subject to the performance of the business. Any matters of conduct that may have arisen during the performance year are considered, and appropriate remuneration consequences are applied. The Partnership Agreement also sets out when a Partner can be asked to retire or expelled (clauses 23 and 25).

<u>National Health and Medical Research Council reference error</u>

Q13. As reported by Retraction Watch, KPMG has been alleged to have provided a made-up reference in an August 2023 report on research integrity commissioned by the National Health and Medical Research Council.
a. Please explain how this fake reference was included in this report.
b. Please provide how much KPMG was paid to commission this report.

Q14. A spokesperson from the NHMRC said that they would "work with KPMG to correct the report." The reference has now been removed, with an erratum on the cover page stating that "NHMRC have removed one reference on behalf of the author (KPMG). This reference was added in error".
a. Why did the NHMRC correct KPMG's inadequate work for them if KPMG was paid by the taxpayer to do this work?
b. Please provide any correspondence between KPMG and the NHMRC regarding this correction.

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[6] Global Code of Conduct
[7] FY23 Transparency Report
[8] KPMG Partnership Agreement

KPMG response

KPMG was alerted to the potential error in the International Policy Scan in January 2024. The team conducted a thorough review of the report and all associated references. The review found human error was the source of the single erroneous reference, which came into the report during the drafting process. We can confirm that no Artificial Platform was used in the generation of this reference. As per AusTender records, KPMG was paid $56,214.75 (excluding GST) for this report.

KPMG has apologised to the clients for the error and provided an updated version of the report.

Audit and Non-audit services

Q15. Please provide KPMG's view on a ban on firms providing consulting and auditing services to the same entity.

KPMG response

As outlined in our FY23 Transparency Report, 8% of our revenue is classified as "assurance and other services for audit clients".[9] These engagements must comply with all the Independence requirements set out in the APES110 Code of Ethics for Professional Accountants.

KPMG supports the ten recommendations contained in the 2020 Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into the Regulation of Auditing in Australia[10] and any other sensible measures that increase trust and integrity in audit.

These recommendations include the following that relate to non-audit work:

- Recommendation 3: the Financial Reporting Council, in partnership with ASIC, to oversee consultation, development and introduction under Australian standards of defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity;
- Recommendation 4: the Corporations Act 2001 be amended so that an auditor's independence declaration is expanded to require the auditor to specifically confirm that no prohibited non-audit services have been provided; and
- Recommendation 5: the Accounting Professional and Ethical Standards Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.

The APESB, AASB, ASIC and firms themselves[11] have taken steps to address some of these recommendations. However, recommendations that relate to defined categories and mandatory fee disclosure would require further regulatory action.

[9] FY23 Transparency Report
[10] Regulation of Auditing in Australia: Interim Report
[11] KPMG routinely assesses the performance of audit partners which considers the conduct and execution of their audits as well as "no attribution for success in selling non-audit and assurance services in respect of their audit accounts" in line with KPMG global policies. This practice was consistently and rigorously applied.