Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

17 April 2024

Committee Secretary
Senate Standing Committee on Finance and Public Administration
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: fpa.sen@aph.gov.au

RE: Questions on Notice

Dear Committee Secretary

Please find enclosed responses to the questions on notice provided by Senator Barbara Pocock on 20 March 2024.

Yours sincerely,

Leigh Walker
EY Oceania Risk and Independence Leader

1) 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.

EY's response:

EY does not provide any in-kind or pro-bono services to the Federal Government.

Building a better working world

2) Please provide in excel format the following:

a. The amount earned by EY partners in FY22-FY23.

b. The amount of taxable income earned by EY partners in FY22-FY23.

c. The collective average level of personal tax paid by partners at EY.

d. The number of partners in total at EY who use Everett assignments and service trusts to minimise tax.

e. The proportion of partners at EY who use Everett assignments and service trusts to minimise tax.

f. The range of income for each EY 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 EY using these tax minimisation schemes.

EY's response:

As we disclosed to this Committee at our appearance on 18 July 2023, EY partners on average earned $950,000 in the FY23 financial year. As the ATO shared in their submission, reportable taxable income will be slightly higher than this due to differences between taxable income and accounting income.

The estimated average rate of tax paid by EY Partners on Australian firm income for the years ended 30 June 2022 and 2023 was 38% and 39% respectively, as we have disclosed in our annual Value Realised Scorecard that is available on our website.

For the year ended 30 June 2022 (the most recent year for which all returns have been filed), 197 Partners, or approximately 30 per cent of EY Australia partners, had an Everett assignment in place.

Everett assignments are used across partnerships operating a range of businesses in Australia and are put in place for a range of different commercial reasons. They have been an accepted arrangement by the Courts and the ATO for a long period of time as they recognise that partnership income will be derived from the ownership interest in the business (in addition to income from personal exertion) as discussed in the ATO's submission the PJC Inquiry. These arrangements are the subject of detailed ATO guidelines on the parameters within which they should operate. EY Partners are subject to regular review in relation to those guidelines.

All EY Partners receive part of their income through the EY services trust. Service trusts are a broadly used structure across many businesses and all professional firms, again for a range of commercial reasons. The use of a service trust is an accepted arrangement by the ATO and subject to guidelines for their use. EY's use of its service trust pursuant to these guidelines is regularly reviewed by the ATO.

3) As reported in the AFR on the 12th of February, an EY spokesman said that about 30% of the firm's approximately 760 partners use Everett assignments.

a. Will EY 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?

EY's response:

No.

An Everett assignment is an arrangement endorsed by the High Court and the ATO that allow business owners like partners in a firm to assign some of their ownership interest to be held by people other than the individual professional practitioner, i.e. EY partner.

Entering into an Everett assignment is a personal decision made by each individual partner depending on their personal circumstances. It is not something that's decided by or promoted by the firm.

We continue to operate our business and personal tax matters in a manner that is consistent with the law and guidance from the ATO.

If that guidance should change, that is when we would re-examine our position.

We would note that the Committee has previously made comparisons of the benefits and disadvantages of partnership structures and corporate structures.

To compare how tax is paid by a partner in a professional services firm and a company executive operating in a similar structure, full tax on partnership profits is paid earlier and at a higher rate than company profits. If EY was structured as a company, dividends, taxed at the 30% company tax rate, would be payable to any individual the partner nominated, with the balance of tax due by shareholders deferred until distributed.

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

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

EY's response:

14 of EY's people received the LAFHA and were included in our FBT return, and tax paid as required. We follow the criteria as required by law.

Building a better working world

5) Please provide in excel format the profit margin EY made on its $84.7 million of government contracts in FY22-FY23.

EY's response:

EY's margins are commercially sensitive information and our release of these would be viewed as anti-competitive as our competitors would use this information to set pricing.

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

EY's response:

EY operates in an incredibly competitive marketplace for government contracts and earns a fair margin for the services that we provide to the Federal Government.

Margins are assessed on a project-by-project basis, depending on the type of contract and services offered.

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

EY's response:

Last year EY Oceania recorded $3.26bn in revenue.

EY collects a large range of employee and workplace metrics. Many of these are disclosed in EY Oceania's Value Realised Scorecard, and a selection of key staff metrics are copied below.

In FY23, our recruitment efforts stabilised, and we hired 3,694 new employees in Oceania. This represents a 23% decrease from FY22 hiring numbers. Student recruitment remained relatively consistent with the prior year, and we employed more than 1,700 students through graduate or intern programs in FY23.

Figures provided below include the Oceania headcount at 30 June 2023, excluding temporary employees and contractors.

Staff headcount	10,530
Partners	782
Total new hires	3,694
Turnover	18%
Turnover by rank	
Partner	3%
Director/Executive Director	7%
Senior Manager/Associated Director	13%
Manager/Assistant Director	23%
Senior/Supervising Associate/Senior Associate	30%
Staff/Assistant/Associate	16%
Admin	19%
Turnover by Service Line	
Assurance	23%
Core Business Services	14%
Consulting	21%
Strategy and Transactions	20%
Tax	15%
Asia-Pacific Service Line Centre of Excellence	10%
Financial Services Office	19%
People Advisory Services	19%

Building a better working world

8) EY's motto is 'building a better working world', yet Elizabeth Broderick's review shows that EY embodies the worst of workplace culture.

a. Does EY think it is acceptable that almost one third of EY staff works 51 or more hours in a week routinely?

b. How does EY justify 46% of its staff reporting negative impacts as a direct result of long working hours?

c. 42% of EY staff are considering quitting due to being overworked. EY had a 37.4% employee turnover in 2021-22, far above the other Big 4 firms. How can EY be trusted with public money when EY treats their own staff so poorly?

EY's response:

As we shared with the Committee in February, in July 2023, we released in full, the independent review by Elizabeth Broderick and Co's Review into EY's Workplace Culture.

As you heard directly from Elizabeth Broderick & Co on 9 November 2023, the report findings highlighted that a significant majority of our people have a positive experience at EY.

However, this is not the experience for everyone, and for that, we are sincerely sorry.

The report found long working hours and work pressures to be a critical issue and recognises it as a complex challenge that requires a multi-faceted response, including engagement with our people and our clients.

For more details around this challenge, we would refer the Senator to the 9 November 2023 testimony, where Elizabeth Broderick & Co discussed in detail some of the drivers of long working hours in professional services and private sector organisations.

This review itself is a demonstration that we are prepared to surface the issues, particularly around the long working hours, so that we can act – and we are. One of the initiatives recommended by the review resulted in EY implementing a time-owed-in-lieu pilot across our service lines and we are making strong progress on other recommendations.

EY's turnover in FY23 was 18 per cent.

9) There are reports that the Chair of EY New Zealand Braden Dickson – who worked in Australia and answered to Australian partners and EY Oceania CEO David Larocca – was fired last month.

a. Please provide the grounds for Braden Dickson's dismissal.

b. Please provide which individuals were involved in making this decision.

c. Please explain to what extent does this decision relate to alleged misconduct on the part of Braden Dickson.

EY's response:

Following a historical behavioural matter being raised in December 2023, EY conducted an investigation and Braden Dickson, EY New Zealand Partner and Business Development Leader, departed EY in early February.

A range of Partners in EY Oceania's Executive Leadership Team were involved in the decision, New Zealand Managing Partner, Simon O'Connor and EY Oceania CEO and Regional Managing Partner David Larocca were responsible for the decision following consultation with the Firm's Asia Pacific Area Ethics Oversight Group.

10) Please provide EY's view on limiting the maximum number of partners in accounting firms to 50

EY's response:

We see no merit in this proposal but significant challenges, and likely unintended consequences.

Limiting the maximum number of partners to 50 people would be a significant restructure of the professional services industry and place Australia out of step globally.

As an example, Australia's capital market relies on partnerships with more than 50 partners for the delivery of audit services which are critical to the operation of the market. EY has significantly more than 50 audit partners – in addition, and as we have referenced in our appearances at this Inquiry, our audit practice relies on specialists across all of our service lines to complete audits (eg. Tax sign-offs, valuation impairments, technology risk assessments etc). This limitation would therefore mean a break-up of our audit practice and, we assume, all of the larger firms' audit practices. There are significant legal limitations that presently do not permit multi-disciplinary professional services firms with an audit practice to practically operate as a single corporate entity.

Restructuring accounting partnerships in this manner could have unintended consequences of forcing the exit of some firms and the exit of skilled professionals from the market. Creating multiple smaller firms would result in significant duplication of functions across the new audit firms, increasing cost for the users of these services. It would also likely risk lowering the quality of audit services.

In our submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry, we have put forward a proposal to provide uniform regulation of Large Registered Partnerships, those with 100 partners or more than $50m of revenue. We believe this is an appropriately targeted regulatory response and have made a number of other recommendations to support this reform.

In relation to structure, we have recommended that the UK partnership reforms that treat and regulate limited liability partnerships as companies under the UK companies legislation be considered.