

19 October 2023

Mr. Patrick Hodder,
Committee Secretary,
Finance and Public Administration References Committee

Dear Mr. Hodder,

Re: Senate Finance and Public Administration Committee (the “Committee”) Inquiry into the Management and Assurance of Integrity by Consulting Services – Answers to Questions on Notice provided during the public hearing on 26 September 2023

We refer to the questions on notice posed during the public hearing on 26 September 2023 and provide our answers below.

Unless otherwise specified, the information provided in this submission pertains to the Australian offices of McKinsey Pacific Rim Inc. (“**McKinsey Australia**”) only. We interpret any reference to “McKinsey” in the questions on notice as referring to McKinsey Australia.

1. Please reconsider providing a breakdown of partner compensation and/or compensation of senior leadership.

We have further considered the Committee’s request and we are not able to share the remuneration of our individual partners or averages across quintiles. We consider the remuneration of our employees to be private information that is personally, competitively, and commercially sensitive. Our partners’ remuneration is fixed by a global independent committee and our partners are assessed as part of a global talent pool. As such, disclosure of our Australian partner compensation (at an individual or segment level) would disclose the compensation arrangements for all of our partners globally.

2. Please explain what you have publicly disclosed about remuneration.

As a foreign company registered in Australia and subject to the requirements of the Corporations Act, we are obliged to lodge a copy of our financial statements with ASIC every calendar year, together with the prescribed Form 405. The financial statements comprise the balance sheet, profit and loss statement, and cash flow statement. Within the profit and loss statement, there is a line item for the overall value of “salaries and wages” or “salaries and other benefits” for McKinsey Australia.

3. Has the Ombud program been used by McKinsey Australia employees working on engagements for Australian government entities? Can you provide statistics in this respect?

Our Ombud Program is a resource that provides informal, confidential advice and support to McKinsey colleagues. As our Ombud Program is a confidential resource, we do not track the identities of individuals who seek advice and support from Ombuds. Our Ombuds maintain de-identified records of inquiries for a two-year period. Under the International Ombud

Association (“IOA”) Standards of Practice,¹ Ombuds are permitted to share information about the Ombud Program, including data, trends or reports, in a manner that protects confidential information.² Our Ombuds have checked the records of inquiries from McKinsey Australia employees and have confirmed that no inquiries made to our Ombuds in the last two years have concerned Australian Government work.

4. Are Ombuds Australian citizens? Who are they and where are they physically located? Do they have security clearance?

We currently have five Ombuds, all of whom are McKinsey employees and therefore subject to McKinsey policies and procedures, including our Client Conflict and Confidentiality Policy. Our Ombuds comply with the International Ombud Association (“IOA”) Code of Ethics³ and the IOA Standards of Practice. Current Ombuds are located in North America, Europe, and South Africa. None of the five Ombuds are Australian citizens and none have Australian security clearances. Explanatory materials available to McKinsey Australia employees explain that the Ombuds deal with *“work-related concerns like tensions, respect, and alleged bias as well as personal issues like stress, burnout, mental health, and relationships.”* As noted in our answer to Question 3 above, no McKinsey Australia employees have made inquiries to our Ombuds concerning Australian Government work in the last two years.

5. Ombuds can take action without the permission of the enquirer in situations involving ‘safety’ and ‘matters of law’/ ‘illegal action’. What constitutes ‘matters of law’/ ‘illegal action’?

All colleagues making inquiries of an Ombud are assured of strict confidentiality and no action can be taken by the Ombud without the permission of the inquirer. Some individuals may choose to have the Ombud speak on their behalf, and may ask the Ombud to reveal specifics of the case for this purpose. The Ombud will do so only at the explicit request of the individual and if the Ombud believes it is appropriate to do so.

When asked about exception(s) to our Ombuds’ duty of strict confidentiality during the public hearing on 26 September 2023, Ms. Petherick stated that “[t]here is an exception where there’s a question of safety for an individual or a matter of law,” but emphasised that she would need to take on notice the Committee’s request for the specific language of exception(s). We wish to clarify that our Ombuds comply with the International Ombud Association (“IOA”) Code of Ethics and the IOA Standards of Practice, which require Ombuds to protect confidential information to the maximum extent permitted by law and allow only two exceptions to the Ombud’s duty of strict confidentiality, which are:

¹ IOA Standards of Practice (adopted and effective 17 March 2022), https://ioa.memberclicks.net/assets/docs/SOP-COE/IOA_Standards_of_Practice_English.pdf.

² IOA Standard of Practice 5.8 (“*The Ombuds may provide non-confidential information about the ombuds program in any appropriate forum. The Ombuds shares data, trends, or reports in a manner that protects confidential information.*”).

³ IOA Code of Ethics (adopted 17 March 2022), https://ioa.memberclicks.net/assets/docs/SOP-COE/IOA_Code_of_Ethics_English.pdf.

- Where the Ombud determines that a failure to disclose the confidential information “*could result in imminent risk of serious harm*”⁴ (which we are advised refers to physical harm); and
- Where the Ombud determines that disclosure of the confidential information is necessary to defend the Ombud “*against a formal complaint of professional misconduct*.”⁵

6. Where can you go in the sector to find out if people have done the wrong thing?

There is no industry-wide regulator for consultants that records wrongdoing and disciplinary action as in some other professional services industries. In relation to Australian Government work specifically, May 2023 amendments to the MAS Panel Head Agreement include the new Notification of Significant Event clause, which requires a service provider to notify the entity managing the contract upon becoming aware of (among others):

- Any adverse comments or findings made by a court, commission, tribunal or other statutory or professional body regarding the conduct or performance of the service provider that impact its capability to deliver the agreed services; or
- Any adverse comments or findings made by a court, commission, tribunal or other statutory or professional body regarding the conduct or performance of the service provider or its personnel, agents or subcontractors that may have a material adverse impact on the service provider’s compliance with Australian Government policy or legislation, the Commonwealth’s reputation or the capability of the service provider or its personnel to deliver the services.⁶

In addition, we subject all our prospective employees to rigorous onboarding and screening checks to verify they are of good standing, including background checks that are AS-4811 equivalent compliant.

7. How many McKinsey Australia employees previously worked in the Tax/ Audit department at PwC?

We refer to our written submission dated 7 July 2023, in which we noted that no McKinsey Australia partners were formerly partners at PwC Australia. Based on our records, 16 of our approximately 650 current McKinsey Australia employees were previously non-partner employees of PwC Australia. Of these 16 employees, seven employees held internship positions (typically for less than two months) with PwC Australia. Our records do not record which departments these employees worked in while at PwC Australia.

⁴ IOA Standard of Practice 5.5 (“*The Ombud may disclose confidential information as necessary if the Ombuds determines that the failure to do so could result in imminent risk of serious harm.*”).

⁵ IOA Standard of Practice 5.6 (“*The Ombuds may disclose confidential information about a specific matter to the extent the ombuds determines it is necessary to defend themselves against a formal complaint of professional misconduct.*”)

⁶ MAS Panel Head Agreement, clause 16.2.3.

8. Provide us with the number of McKinsey Australia personnel who previously worked at KPMG, EY, PwC and Deloitte.

The following table shows, based on our records, the number of current McKinsey employees who were previously employed by KPMG, EY, PwC or Deloitte:

Firm	# of current McKinsey employees previously employed by KPMG, EY, PwC or Deloitte as interns only	# of current McKinsey employees previously employed by KPMG, EY, PwC or Deloitte as full-time employees
KPMG	2	4
EY	4	5
PwC	7	9
Deloitte	9	8
TOTAL	22	26

Of these 48 employees, just under half held internship positions with the named firms as university undergraduates, meaning that they were employees of the named firms for typically two months or less.

10. Does McKinsey Australia pay service fees to McKinsey global to have access to global functions? Is there a service agreement between Asia and other parts of the business?

McKinsey & Company operates as a globally integrated firm. Firm entities (including McKinsey Australia) may provide services to, and receive services from, other McKinsey entities under an intercompany service agreement. McKinsey Australia may pay fees to, or receive fees from, other firm entities under this agreement.

11. What are the qualifications of the McKinsey ethics and compliance team?

McKinsey's Ethics & Compliance (E&C) group is a globally distributed, highly experienced and credentialed team of approximately 95 professionals, who are led by a leadership team of eight ethics and compliance professionals with over 100+ years of collective experience with previous roles as Chief Ethics & Compliance Officers, Senior Vice Presidents and Vice Presidents at leading global Fortune companies.

Colleagues within the E&C group have a diverse mix of credentials including academic degrees, admissions as lawyers, and certifications as Certified Public Accountant, Certified Fraud Examiner, Certified Internal Auditor, Certified Ethics and Compliance Professional, Certified Information Privacy Manager, Certified Information Privacy Professional and Certified Information Systems Auditor.

12. In relation to the 2019 contract with the Department of Human Services in which media reports indicate you offered a 66% discount – is that reporting accurate? If not, what was the actual amount of the discount that McKinsey Australia provided? What was the reason for this discount?

All our Australian Government contracts are publicly reported on AusTender or Agency websites. We are unable to provide further information on individual contracts as such information is the subject of confidentiality obligations owed to our clients.

13. Did you undertake further work in relation to transforming the Department of Human Services following the initial contract in 2019? Can you provide all contracts and their value with the Department of Human Services between 2019 to 2021?

All our Australian Government contracts are publicly reported on AusTender or Agency websites. We are unable to provide further information on individual contracts or the contracts themselves as such information is the subject of confidentiality obligations owed to our clients.

We note that the Department of Human Services (DHS) was abolished and replaced by an Executive Agency, named Services Australia, on 1 February 2020. The following table provides information extracted from AusTender on McKinsey Australia's contracts with DHS and Services Australia in the 2019 to 2021 period:

Start date	End date	Department or Agency	AusTender description	Contract value	Contract number
7/02/2019	30/03/2019	Department of Human Services	Business Advisory Services	\$220,000	CN3575619
17/06/2019	16/06/2021	Department of Human Services	Business Advisory Services	\$5,965,000	CN3611020
17/06/2019	16/06/2021	Services Australia	Business Advisory Services	\$596,500	CN3611020-A1
11/07/2019	23/08/2019	Department of Human Services	Business Advisory Services	\$858,000	CN3617072
6/11/2019	23/12/2019	Department of Human Services	Business Advisory Services	\$3,008,500	CN3641581
6/11/2019	30/06/2020	Department of Human Services	Business Advisory Services	\$1,659,900	CN3641581-A1
3/02/2020	18/12/2020	Services Australia	Business Advisory Services	\$17,380,000	CN3665818
3/02/2020	18/12/2020	Services Australia	Business Advisory Services	\$1,089,000	CN3665818-A1
3/02/2020	26/02/2021	Services Australia	Business Advisory Services	\$319,000	CN3665818-A2
17/08/2020	30/06/2021	Services Australia	Business Advisory Services	\$1,826,000	CN3716570
17/08/2020	30/06/2021	Services Australia	Business Advisory Services	\$6,798,000	CN3716570-A1
17/08/2020	30/06/2021	Services Australia	Business Advisory Services	\$407,000	CN3716570-A2
26/10/2020	19/11/2020	Services Australia	Management advisory services	\$79,990	CN3740999
1/04/2021	31/03/2022	Services Australia	Software Licenses	\$306,900	CN3762945
1/04/2021	30/09/2022	Services Australia	Software Licenses	\$146,960	CN3762945-A1

14. Please indicate how McKinsey Australia's processes relating to culture and capacity are better than those of your public sector colleagues? Provide an assessment of your public sector colleagues. This information may be provided in confidence.

We respect the important work of the Australian Public Service and have worked closely with public sector colleagues on important work for the nation.

Like any organisation, there are areas of strength and opportunity – and those are well documented for the public sector, including in the 2019 Independent Review of the APS (the “**2019 APS Review**”).

In our work with the public service, we have actively sought to build some of the capabilities outlined in the 2019 APS Review. We see the best outcomes on consulting projects when we work in joint teams, with McKinsey Australia's relevantly experienced consultants working with the inhouse capabilities of the public sector.

Capability building and knowledge transfer are a core part of the work we do in the public sector to have a lasting impact for our clients. We agree to a shared aspiration for capability building with our clients upfront, setting action plans with joint targets that can be measured throughout projects.

We support public sector capability building and knowledge transfer through two key methods:

- Our joint working model which involves developing a team for a project which is made up of McKinsey colleagues and the client's personnel to maximise peer-to-peer learning; and
- Capability building programs to develop public servants' core skills through immersive workshops, masterclasses and coaching sessions led by McKinsey consultants with relevant experience and knowledge in the appropriate areas, as well as through self-paced virtual learning courses.

15. How long has McKinsey Australia been serving the Commonwealth? How much business have you done with the Commonwealth over the last 10-15 years? In particular, identify the contracts/ the value/ shape and form of the work completed over the last five years.

All our Australian Government contracts are publicly reported on AusTender or Agency websites. Searches of the AusTender website show contracts between the Australian Government and McKinsey Australia dating back to 2007, to the value of \$315,004,097. Our Australian Government work has accounted for less than 8% of our total revenue over the last five years.

We support the Australian Government by bringing deep global expertise and insights from public and private sectors, accelerating change management and transformation, and building enduring client capabilities. Our projects are focused on specific, high-impact topics that are delivered by combining our global expertise with dedicated, knowledgeable and experienced public servants. Our Australian Government contracts over the last five years can be obtained from AusTender and/or Agency websites.

Thank you for the opportunity to continue to assist the Committee.

Yours faithfully,

McKinsey Pacific Rim Inc.