**Senate Finance and Public Administration References Committee**

**Inquiry into management and assurance of integrity by consulting services**

**KPMG responses to Questions on Notice from the public hearing on 9 February 2024**

## Introduction

In approaching our engagement with the Senate Finance and Public Administration References Committee Inquiry over the past year, we have been cooperative, constructive and transparent in supporting the work of the Committee.

The Inquiry has brought appropriate scrutiny to our profession, encouraged firms to confront challenging issues and driven significant change both within our firm and across the sector.

KPMG Australia has put forward recommendations, changed internal policies to reflect developments within the Inquiry, enhanced disclosures and embedded them in our public Impact Plan[1], released our Partnership Agreement publicly, and will continue to advocate for the development of sensible reform initiatives.

We recognise the need to meet the high expectations of both the Committee and the Australian public and firmly believe KPMG has rightly made a positive contribution to the work of the Committee.

We are committed to continuing to engage with the Inquiry in good faith and to support the work of the Committee.

***Question 1:***

**Partner borrowings**

**Senator BARBARA POCOCK:** Did KPMG borrow $205 million in liabilities to underpin partner profit distribution over the last two years, to June last year?
**Mr Yates:** We have a number of borrowing facilities to fund our business, to fund the working capital of our business or to fund acquisitions of our business, but not to pay directly to partners as distributions. That's not what we do, no.
**Senator BARBARA POCOCK:** You haven't borrowed at all to pay out to partners?
**Mr Yates:** We borrow to fund the operations of our firm, which generate profit, and the tax is paid on that profit. We don't borrow money to then directly distribute that money to partners.
**Senator BARBARA POCOCK:** In 2020-21 did you borrow around about $5 million a month and then, in 2022-23, $12 million a month?
**Mr Yates:** I'd have to go back and check that, but, as I said, we have a number of different borrowing programs that we use to fund our business.
**Senator BARBARA POCOCK:** Could you check that and let us know? You can take that on notice.
**Mr Yates:** I'm happy to take it on notice.

**KPMG Response:**

From 1 July 2021 to 30 June 2022 our overall borrowings increased by $106 million and between 1 July 2022 to 30 June 2023 our borrowings increased by $190 million. As per our 2023 Impact Plan,

[1] Sustainability Impact Plan 2023 - KPMG Australia

our revenue in those two periods also increased by more than $300 million and $200 million respectively.

The increase in borrowings primarily reflects the working capital required to support the growth in revenue, business acquisitions and investment in transformation programs. Our borrowings remain well within our existing financial facilities. Our loan covenant arrangements do not allow us to distribute more than our underlying earnings in a financial year, therefore we do not borrow to pay partner distributions.

***Question 2:***

**Mapping relationships**

**Senator O'NEILL:** I ask for a further response to or consideration of the points that I've made, please. There is a leader of people here. Is that you, Ms McCluskey?
**CHAIR:** Senator O'Neill, you've put your comments on the record.
**Senator O'NEILL:** Yes. I seek a response.
**CHAIR:** I would invite Mr Yates, perhaps on notice, to come back and respond to that. It's a very serious accusation that's been put on the record by Senator O'Neill and Senator Barbara Pocock.

**KPMG Response:**

We acknowledge that our approach to the issue of "power mapping" – the documenting of relationships with public service clients – has not met the expectations of the Committee. We also appreciate that some of KPMG's responses have been a source of frustration for Committee members. It was never our intent to create frustration on this matter, and at our February 2024 Inquiry appearance, we apologised to the Committee.

However, assertions that KPMG has lied or has deliberately attempted to mislead the Inquiry are not a correct or fair assessment of our firm's engagement with the Committee. In all interactions with the Committee on this issue, we have sought to provide greater clarification and explanation.

When first asked about "power mapping" in August 2023, we took too literal an approach to our response. We wrongly focused on whether there was a practice of creating maps (being diagrams akin to the power mapping materials provided on notice to the Committee) to characterise public servants relative to their influence, relationships and/or attitude towards consultancies. This was an error of interpretation. We note that other 'Big Four' firms responded to the original question regarding power mapping in a similar manner[2], indicating a similar interpretation of the original question.

We confirmed in the public hearing in September 2023, that we do map relationships. The purpose of this mapping is to better understand our key client stakeholders, and our relationship with them, to enable the delivery of better services to these clients. Our responses to questions in November 2023 noted that KPMG, like all client-focused businesses, aims to build a good understanding of the strength of our relationships with clients and mapping helps support this goal. We noted in both these interactions that we have an inconsistent process across our firm to managing client relationships and documenting those relationships. Whilst the processes are inconsistent and

[2] Additional Documents – Parliament of Australia (aph.gov.au) – Deloitte response 56; EY response 57; PwC response 58.

unstructured, we acknowledge that maps (however described and in various forms) do exist within our firm.

To address the inconsistent process of mapping across the firm, KPMG is changing our client account planning to ensure that moving forward we take a standardised approach to client management. In doing so, we will consider the guidance provided by the Department of Finance[3] on this matter together with the content of the Draft Commonwealth Supplier Code of Conduct and other relevant recommendations in the Committee's forthcoming report. This work will ensure our approach to relationship management continues to meet our obligations as service providers to the Commonwealth Government and complies with KPMG's Purpose and Values.

***Question 3:***

**One Defence probity controls**

**Senator DAVID POCOCK:** What safeguards do you have at KPMG to ensure that during the scoping of the work that you're not giving your colleagues the inside running, because it seems to happen a lot that you have firms doing above-the-line work and then—surprise, surprise—they are very well placed for the below-the-line work?
**Ms McCluskey:** To manage any risk or any conflict, when the above-the-line team commenced engagement working on the EIM program, we implemented—in agreement with Defence, and with oversight from their external legal firm, who was their probity adviser—very robust probity controls. They ran for the duration of the time frame that we were working above the line. The below-the-line team also implemented probity controls at a different time in the life cycle of their program because was a little bit different. The probity controls we had in place were, as I said, robust.
**Senator DAVID POCOCK:** Would you be willing, on notice, to give maybe this example if you can of what it actually—
**Ms McCluskey:** Do you want me to take you through it?
**Senator DAVID POCOCK:** No, we don't have time.
**Ms McCluskey:** They were very robust and prohibited us talking at all about the work we were doing on the EIM program. That was an example of one of the controls.

**KPMG Response:**

Consistent with the recently drafted Commonwealth Supplier Code of Conduct, a robust probity framework was established to manage risk of conflict of interest. The probity framework was established and overseen by Defence's probity advisor, an external legal firm.

KPMG and Defence implemented the framework in December 2019 for the Enterprise Information Management (EIM) "above the line" team and in July 2020 for the "below the line" team. This aligned with the commercial process for the opportunity. Binding agreements were signed between the two parties, that included measures such as, but not limited to, the following:

- Ethical dividers;
- Individual confidentiality deeds;
- Separation measures (team location, file structures, email restrictions, etc);
- Appointment of a Probity Manager within KPMG to implement and ensure adherence to these obligations;

[3] Identifying opportunities to sell to government | Selling to Government (finance.gov.au).

- Individual team members signing binding agreements to comply with Ethical Dividers and Defence Probity Controls;
- Extensive Probity briefings delivered by the Probity Manager;
- Periodic testing of compliance; and
- Regular monthly reporting of compliance to Defence.

This framework was rigidly maintained until well after the One Defence Data Program contract was formally signed.

KPMG refers the Committee to our response to questions on notice received by Senator David Pocock on 14 February 2024 for more details on this matter.