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

1 August 2023

Via email: [fpa.sen@aph.gov.au](mailto:fpa.sen@aph.gov.au)

## **RE: Questions on Notice**

Dear Committee Secretary

Please find enclosed responses to the questions on notice taken during the Management and Assurance of Integrity by Consulting Services inquiry hearing on 18 July 2023.

As requested by the Committee, we have provided a copy of our partnership agreement on the basis that the Committee has undertaken to keep it confidential. We have also shared further details of our partner remuneration structure, which we also respectfully request is kept confidential.

As we shared at the hearing on 18 July, the public release of these documents and partner remuneration details would be anti-competitive for EY and other professional services firms operating in Australia.

We encourage a broader, measured, evidence-based discussion on an industry-wide standard around disclosure on a range of issues – including executive remuneration disclosure – for our sector.

We would support the development of a framework for these issues through this, or other Committees, and are preparing to respond to this issue as part of our PJC submission.

Yours sincerely,

**David Larocca**  
EY Oceania CEO and Regional Managing Partner

**CHAIR:** I just want to finish this line of questioning, to start with, and then we'll consider that. It's just one question that I want to ask. A lot of the processes of the regulatory bodies have self-reporting requirements. You may not have this information with you, but I'd be curious to understand on how many occasions you've had cause to self-report into those processes. Do you have any of that information with you?

**Mrs Walker:** We'd have to take that question on notice.

**CHAIR:** For that question taken on notice, we'd appreciate the advice on that: the number of times and the organisation to which you've made that self-reporting.

***EY's response:***

EY has had no cause to self-refer to the TPB or CAANZ in the past five years, as these bodies primarily deal with matters that are referred by clients or other stakeholders.

EY is regulated by over 33 different organisations, listed below, and subject to a range of additional reporting regulations as an employer of over 9,000 Australians.

Given the range of matters that need to be reported to regulators across EY Australia's service lines we are doing some further work to be able to provide a comprehensive list of self-reporting instances in the future.

We have provided a list of Australian regulators and bodies that inspect the operations of EY below.

**Australian Regulators and Inspections**

- Chartered Accountants Australia and New Zealand
- AusIndustry R&D
- AUSTRAC
- Australian Securities and Investments Commission (ASIC) –company auditors, self-managed superannuation fund auditors, registered liquidators and Australian Financial Services licences
- Australian Competition and Consumer Commission (ACCC)
- Australian Computer Society
- Australian Property Institute
- Clean Energy Regulator (CER)
- Consumer Affairs Victoria
- Consumer and Business Services - SA
- Department of Commerce - WA
- Fair Trading (NSW, ACT, QLD)
- Fair Work Commission & Fair Work Ombudsman
- Law Society of NSW, WA
- Law Institute of Victoria
- Queensland Law Society
- Law Revenue Office (VIC, NSW, WA, QLD, SA, NT, ACT, TAS)
- SafeWork (NSW, SA)
- Tax Practitioners Board (TPB)
- Valuers Registration Board (QLD, NSW, VIC, WA)
- WorkSafe (ACT, QLD, VIC, NT, WA)

**Senator BARBARA POCOCK:** You could provide your partnership statement to us with redacted sections if there are particular critical questions. You could provide it to us in confidence. But you have not done that. This is a critical piece of the way you work. This is your modus operandi, and we have a right to know given the billions of dollars that is your revenue. I'm not convinced by what you're offering us. There are other ways you could do it.

**Mr Larocca:** I'm happy to take that on notice. We were responding to the question that was to provide the partnership deed—

**Senator BARBARA POCOCK:** You didn't respond, actually.

**Mr Larocca:** We're responding to the question which was, 'Provide your partnership deed in a public forum.' I'm answering the question as to why we took that decision. There are very sensitive elements in our partnership deed that I do not want our competitors to see. It puts us in a position that is anticompetitive. I've given some explanations. I accept that we won't reach agreement on this, but I'm explaining why—

**Senator BARBARA POCOCK:** I'm asking you to take it on notice to reconsider and come back to us.

***EY's response:***

As discussed at the hearing on 18 July, EY's Partnership Agreement contains a number of items we consider commercially sensitive, which if released publicly, could competitively disadvantage our Firm, including, but not limited to arrangements for partners leaving the firm if they choose to join a competitor, restraint arrangements, and other matters that directly impact competitors' behaviour in the market.

However, we are prepared to provide a copy of this Agreement to this Committee, attached as Appendix A, on the basis that the Committee has undertaken that it will be kept confidential.

We have made extremely limited redactions to the Partnership Agreement to remove the names and personally identifiable details of our former partners who receive a pension under EY's legacy pension scheme, which as we shared at the hearing, closed to new entrants in the year 2000.

The average payment under this scheme is less than \$50,000 per annum, and there are 73 retired partners who are on average 74 years old who participate in the scheme today, so we do not believe their identification is in the public interest or their personal interest.

We request that the partnership agreement is redacted in any publication of these questions on notice.

EY is happy to attend an in-camera meeting with the Committee to discuss any questions regarding the Partnership Agreement.

**Senator BARBARA POCOCK:** Would you consider, on notice, providing us a profile in million-dollar categories of the distribution of your partners?

***EY's response:***

EY has decided to provide further information on our partnership income, on the basis that it is kept strictly confidential by the Committee, as this information could influence competitor's behaviour in the market, competitively disadvantaging our firm.

We acknowledge and understand the public interest in this topic and support a measured, evidence-based discussion on what an industry-wide standard for greater transparency around executive remuneration disclosure for our sector. We suggest the development of a framework to support this, in the same way this has occurred in the ASX listed corporate market. We are doing our own thinking on this and will provide proposals for consideration as part of our forthcoming PJC submission.

We remain of the view that disclosing partner income in the detailed form requested by the Committee will be anti-competitive for EY and the broader industry.

In the interests of transparency, we have prepared a table below in the same format as is provided in the internal reporting to EY Australia's partners. The table summarises the income range of each quintile of the EY Australia partnership, that is, each band represents the average earnings of each 20 per cent of the partnership by number of partners.

We request that this table is redacted in any publication of these questions on notice.

EY Partner Income Band disclosures	
Band	Income Range (AUD '000)
First quintile	\$0-\$649
Second quintile	\$650-\$857
Third quintile	\$858-\$1,082
Fourth quintile	\$1,083-\$1,363
Top quintile	\$1,364-\$2,800

**Senator BARBARA POCOCK:** Does anyone in EY, or any partners, have any kind of financial stake in Verra or in Gold Standard?

**Mrs Walker:** I would have to take that question on notice.

***EY's response:***

No partners in the EY Global Network hold any financial interests in Verra or Gold Standard, both of which are not-for-profits.

**Senator O'NEILL:** ... One of the concerns that we have is compliance with any regulatory requirements and professional status. You indicated that CAANZ is your preferred entity for which all of those who are required to register would register. How many people working at EY Australia are registered with CAANZ?

**Mrs Walker:** All our partners, and there'll be other staff as well.

**Senator O'NEILL:** How many are we talking about there?

**Mr Larocca:** For partners, 703 are registered right now.

**Senator O'NEILL:** What about your other staff?

**Mrs Walker:** We don't have a register of that. I'd have to take that question on notice. It would be the ones who have gone through the Chartered Accountants program and our Chartered Accountants themselves who'll be members of CAANZ.

***EY's response:***

956 EY partners and senior professionals hold a Certificate of Public Practice issued by CAANZ, a requirement for all partners and other senior staff who are responsible for providing accounting services to the public. Of these, 415 are Chartered Accountants and 541 are Affiliate members of CAANZ. All must comply with the APES110 Code of Ethics.

CAANZ have confirmed there are more than 900 other EY staff that are members of CAANZ, and nearly 600 current employees are provisional members as they work on their CA studies.

**Senator O'NEILL:** Yes, Mr Nixon. And on how many occasions has EY engaged with that in the last year?

**Mr Nixon:** I don't have that—

**Senator O'NEILL:** Will you take that on notice?

**Mr Larocca:** Probity advisors? All the time.

**Senator O'NEILL:** How frequently? Could you take that on notice.

**Mr Larocca:** We'll take it on notice.

**Senator O'NEILL:** Is it 100 per cent? Is it 50 per cent? Is it external? Is it internal?

**Mrs Walker:** Senator, I can give you an example of where we've engaged with a probity—

**Senator O'NEILL:** If you'd like to give me that on notice, that would be great, but I just want to keep moving, thank you.

***EY's response:***

EY frequently engages with Probity Advisors, and we would estimate that approximately 85 per cent of EY contracts with the Commonwealth see the government engaging probity advisors.

As Probity Advisors are engaged by and for the Commonwealth, we do not hold a central register of when advisors have/have not been engaged as they do not change our requirement to uphold EY's Code of Conduct or abide by the requirements of APES 110.

The Committee may want to give consideration to whether the use of Probity Advisors should be disclosed on AusTender.

**Senator O'NEILL:** Where do the EY brand and association connections exist with regard to something like this article that I've been able to secure, which is from 17 July and was written by Bernise Carolino? It's on the human resources director, and the headline is 'EY accused of trade secret misappropriation, tortious interference, fraud'. This is the situation in the US, where the defendants filed a motion to dismiss claims against EY for tortious interference, and the defendants failed to prove that the TCPA applied to the claim. How much does that impact on EY Australia?

**Mr Larocca:** I need to get across that specific matter.

**Senator O'NEILL:** Yes, and I'll give you the opportunity to respond to that on notice.

***EY's response:***

The article which Senator O'Neill refers to does not have an impact on EY Australia.

The appellate decision that is referred to in the media article is only in reference to one claim in the ongoing matter that was raised on appeal.

None of the claims have been adjudicated. EY US strongly disputes the baseless claims of this case and is vigorously defending them.



**Mr Larocca:** Quality is a fairly binary issue. Leigh, I might ask you to discuss the impact on our partners at year end.

**Senator O'NEILL:** I've only got a couple more minutes, and I have a couple more questions, so could you provide further information on notice?

***EY's response:***

EY [Australia's Transparency Report 2022](#) contains our Partner remuneration framework on page 58.

To summarise, EY Australia partners are evaluated and compensated based on criteria that include specific quality and risk management indicators and requires quality to be a significant consideration in a partner's overall year-end rating.

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from EY.

**Senator O'NEILL:** Do you pay through service trusts?

**Mr Larocca:** Yes, an element of our income is through a service trust.

**Senator O'NEILL:** What entities are the partners paid through?

**Mr Larocca:** I'll have to take that question on notice.

***EY's response:***

Consistent with all large professional services firms, EY Australia operates its business through both a partnership and a services trust. EY Partners (and their associates) receive their income in their capacity as a partner in the partnership and as a beneficiary of the services trust.

Regardless of the payment arrangements, all EY Partners (and their associates) pay income tax on their earnings.

**Senator O'NEILL:** Does EY offer tax services to its own partners?

**Mr Larocca:** Yes.

**Senator O'NEILL:** Could you provide, on notice, the taxation for the corporate entities as opposed to taxation for the partnership?

**Mr Larocca:** Yes. Sorry: these are the taxation services we provide, or the tax paid?

**Mr Grimley:** I think the tax paid in relation to the corporate entities structure.

**Senator O'NEILL:** Yes.

***EY's response:***

A small amount of EY's activities in Australia are carried on through corporate entities. In FY22 the total corporate tax paid by these entities was approximately \$7.3m, and this amount forms part of the total taxes paid as disclosed in our [Value Realised report](#).

As a private partnership, taxes are paid by EY Partners and not the EY member firms. For EY Australia, we have processes in place to help establish that the individual tax positions of EY Partners are sufficiently transparent to the firm, to help assure the Australian Taxation Office (ATO) and our own Partner group that total partnership income is appropriately reported to the ATO and regulatory authorities in accordance with the law.

Total taxes paid is across Australia and New Zealand. This includes taxes paid by EY entities and taxes paid by Partners and staff on EY income.

The relevant table is included as an excerpt below from page 22 of the 2022 Oceania Value Realised Report.

EY Value Realised Report Extract		
	2022	2021
Total taxes paid (approximately)	\$839m	\$660m
Average effective tax rate paid (Australia and New Zealand firm Partners on member firm income)	38%	38%