



Att: Senator Dean Smith
Chair, Joint Committee of Public Accounts and Audit
PO Box 6021, Parliament House, Canberra ACT 2600
via email to: jcpaa.reps@aph.gov.au

17 September 2018

Dear Senator,

**Additional information: Australian Government Contract Reporting - Inquiry
based on Auditor-General's report No. 19 (2017-18)**

We are pleased to provide the following additional information to the Committee as part of its Inquiry into Australian Government Contract Reporting. We are committed to positively contributing to the Australian community, to supporting and enabling initiatives that will strengthen the future prosperity of our country and its citizens. Indeed, our global purpose is to 'Build trust in society and solve important problems'. We are keen to play a part in helping government to make informed decisions about the efficiency and effectiveness of consultants engaged by agencies to support the work of the government.

As outlined in our original submission, we believe the use of external consultants delivers value for money, improves efficiencies and secures stronger outcomes for the public sector for the following key reasons:

- Contracting arrangements enable the public service to access highly specialised skills as and only when required.
- Our consultants provide knowledge and skills transfer to public sector personnel, and in doing so, boost the skills and effectiveness of the public sector.
- By retaining consultants, public sector risk is managed and mitigated in a way that is valuable for government.
- Operating in a highly competitive environment, we're driven to deliver high value by being continuously innovative and bringing fresh thinking from our experience in the private and public sectors to every engagement, and sharing those perspectives with our public sector clients.

Kind regards

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Additional information as requested on notice

1. Could you provide a description, including case studies if possible, of what you consider good public sector practice in ensuring knowledge is transferred from a consultancy to a client organisation?

In our experience many Requests for Tender ask for, and subsequently our contracts include, knowledge management and transfer arrangements. Critically, for knowledge transfer to be maximised there needs to be individuals on the client side identified to receive the transfer of knowledge. It works well when people schedule the time throughout the project for knowledge transfer to occur regularly. With these measures in place, we have seen the following approaches yield good results in terms of knowledge transfer across various projects and clients:

- Integrated teams from the beginning of the engagement;
- Clients attending PwC run training relevant to the project;
- Our teams sharing methodologies that are often left with our clients; and
- Coaching and mentoring (formal programs) that include senior PwC people as the coach / mentor.

An example of this is in the case of the Department of Social Services, where PwC developed an actuarial simulation model to underpin the Priority Investment Approach to welfare. This model has been used to identify groups of people who have a high risk of remaining dependent on the welfare system, and to inform policies to help more Australians live independently of welfare and achieve more positive life outcomes. This has been a large project where our consulting team worked in close collaboration with the Department and other parts of government in order to co-design the modelling solution. There has been significant knowledge transfer to the Department in the form of co-working, training, stakeholder workshops, setting up the model to run in the Department's own IT environment, and model documentation.

2. Is Government work more or less profitable than work for the private sector?

In general, due to the competitive nature of this market sector, our government work is slightly less profitable than the private sector. With many different service offerings, the profitability of our work is driven by client needs, the type of work, size of project, complexity and associated risk of project, and the scarcity of the required skills. We assess these factors for each given client project, across private and government sectors.

We refer the Committee to our Submission where we outlined how panels arrangements have been implemented extensively over the past five to six years, resulting in strong outcomes for government. The fees or rate card that each supplier agrees to at the establishment of a panel must be used when tendering for opportunities under that panel. The Australian Government contracting environment is a highly competitive market for consultants with strong probity rules. The Commonwealth Procurement Rules (CPR) are comprehensive and apply to all procurement contracts, with a focus on accountability and transparency while encouraging value for money, competition, and efficient and economical procurement.



3. Can you provide a list of all ABNs you have used in undertaking Government work?

There are five main ABNs we use for our work with the Government, as listed below.

1. ABN 52780433757 - PricewaterhouseCoopers
2. ABN 20607773295 - PricewaterhouseCoopers Consulting (Australia) Pty Ltd
3. ABN 54003311617 - PricewaterhouseCoopers Securities Ltd
4. ABN 51165106712 - PricewaterhouseCoopers Indigenous Consulting Pty Ltd
(PwC owns 49% of this entity)
5. ABN 11130171658 - PwC Strategy& (Australia) Pty Ltd

The different ABNs are needed to meet Australian regulatory and legal requirements (for example, one ABN is used for any work requiring an Australian Financial Services licence) and also reflect the different structures we have (for example, our Australian consulting business is part of our regional ASEANZ consulting joint venture, and we also have growth through acquisitions resulting in transition of acquired ABNs).

A full list of our ABNs can be found at <https://www.abr.business.gov.au/>.

4. Can you provide full details of all revenue from work over the last five years for Commonwealth agencies and entities, shown year by year and broken down by agency?

In our submission, we noted that PwC's revenue from Commonwealth agencies and entities over the 5-year period 2012-13 to 2016-17 was \$442.411m. This was based on internal reporting, measured on an accruals basis, which does not include GST or sub-contractor fees. For a fuller picture the best place to find this information is still in the value of supplier contracts listed in AusTender. We are very happy to help you with any specific questions you have in regard to the AusTender data.

5. In order to help understand the profitability of auditing work in comparison to consultancy work and to gain insight into the proportion of your business which is traditional financial statements versus other types of work, please provide:

- a. For the last five years across your Australian business, the proportion of your work that is financial statement auditing, and the dollar value of your work that is financial statement auditing versus the dollar value of your other work.
- b. For your overall business in Australia and, separately, for your work for the Commonwealth, what percentage of profit is generated from financial statement auditing versus other categories of work?
- c. Please include in your answer any other categorisation or qualification that you feel would provide the Committee with additional insight.



PwC Australia's revenue for the financial years ending 30 June 2014 - 2017 is shown below. The 2018 numbers will be released in our annual Transparency Report on our website, www.pwc.com.au, by 31 October 2018.

| | 2014 \$m | 2015 \$m | 2016 \$m | 2017 \$m |
|--|-------------|-------------|-------------|-------------|
| Total revenue for the financial year | 1,573 | 1,731 | 1,920 | 2,120 |
| Revenue relating to audits of financial statements | 354 | 364 | 369 | 396 |
| Revenue for non-audit services provided to audit clients | 189 | 194 | 200 | 208 |
| Revenue for non-audit services provided to non-audit clients | 1,030 | 1,173 | 1,351 | 1,516 |

Source: PwC Australia Transparency report: Year ended 30 June 2015, 2016 and 2017. Reporting was not required before 30 June 2015. Available at <https://www.pwc.com.au/assurance/transparency-report.html>

The above table is disclosed annually as required under the Corporations Act. Revenue relating to audits of financial statements for FY17 was \$396m. Revenue for non-audit services to those audit clients in FY17 was \$208m, and includes services that are typical for the auditor to perform such as those related to regulatory returns, as well as other financial advisory or consulting work.

The remaining FY17 revenue of \$1,516m includes services provided to all other clients, including government. These services include:

- Assurance services, including internal audit, risk assurance certification and compliance, food security, environmental assurance, digital trust, data assurance and accounting advice.
- Consulting services, including strategy, business and performance, people and organisation, customer experience, technology, cyber, forensics, economics and policy, and risk and regulation.
- Financial advisory services in the areas of tax, legal, infrastructure & urban renewal, and deals.

In general, the percentage of profit generated from financial statement audits compared to other categories of work is in line with the proportions shown in the table above. Auditing services is an important, and profitable part of our business. It remains a cornerstone of our brand, and will continue to grow and evolve as technology advances and business complexity increases.

6. Do you support the government's proposal to require a statement of tax compliance for any tenders over \$4 million? It was part of the government's announcement on the Black Economy Taskforce.

Yes. On 15 June 2018 we lodged a submission to the Government's public consultation, "*Increasing the integrity of the Commonwealth procurement process*," in which we supported the Government's proposal to require businesses seeking to tender for Australian Government procurement contracts over \$4 million (including GST) to provide a statement from the Australian Taxation Office indicating that they are generally compliant with their tax obligations.



7. Would you be able to provide an estimate of tax payment paid in Australia, on your firm's annual profit over the last five years?

PwC is an Australian partnership owned by its partners. As a partnership, every PwC partner is responsible for paying their own tax on the income they earn in accordance with Australian laws. All PwC Australia partners pay tax in Australia.

8. Would you support a proposal to require the filing of full financial statements with ASIC for any entity receiving over \$10 million a year in government funds?

PwC meets all regulatory requirements and will continue to do so in the future. We believe any new proposals for additional regulation would benefit from broad community consultation to obtain meaningful input from business and non-profit sectors, to avoid unintended consequences, and ensure successful implementation of any new policy.

9. Could you provide a list of how many projects your firms are currently engaged in with Commonwealth agencies?

a. As part of this list could you provide details of the type of work involved in each project and the value of each project?

We currently have 130 contracts listed in AusTender for work being undertaken by our assurance, consulting and financial advisory teams. The best place to view the detail of the type and value of each of these is the AusTender website. The type of work is incredibly varied, and the skills involved include many of those outlined in question 5. Owing to our contracts being with the Commonwealth rather than Parliament, we would happy to continue to work with the Government if there is further detail it requires.

10. Could you provide a list of projects undertaken for the Commonwealth showing the initial contract value of each project and the final value, including variations, of each project?

As noted in our response to question 9, we believe the best source of information for the Committee is AusTender, which provides information on current and past engagements where PwC Australia has been contracted by the Commonwealth, including the value of these contracts. Amendments to these contracts are also reported in AusTender.

11. Could you provide details of your firm's staff growth in Canberra over the last ten years? Please include any qualifications you feel necessary to explain these figures.

In the last five years our Canberra office has grown from 232 to 341 people (including full-time, part-time and casual employees and partners).



Our teams operate on a national basis and partners and staff work on a variety of public and private sector clients from all of our offices, including Canberra. For these reasons, it is not possible to isolate the growth in our Canberra office as it relates solely to our work for Government.

12. How many of your staff are currently deployed to Commonwealth agencies?
Additionally how many of your staff have IT logons or security passes for Commonwealth agencies?

The nature of each project will determine whether our partners and staff have security access passes or computer logins for Commonwealth Agencies. For security reasons, we do not feel it is appropriate for us to expand on this and suggest the Committee discuss these matters directly with Commonwealth agencies.

13. Nationally, how many of your current partners are ex-SES officers or ex-senior military officers?

Currently we have fewer than five partners (out of over 700) who have previously held a senior Australian Public Service (SES) or senior military role. These individuals go through the same recruitment and assessment process as with any other partner admission.

Our people come from a diverse range of academic backgrounds including business, economics, engineering, finance, health, cyber, technology and law. We recruit from both the private and public sector. This ensures better results for our clients because our firm can draw on a diverse range of experience.

14. In your work for Commonwealth entities or agencies over the last five years, could each firm advise the Committee of details of every project where a Commonwealth entity or agency has:

- a. demanded a reduction in fees;
- b. demanded a refund of fees already paid or other make-good;
- c. ended the project early;
- d. or commenced legal action against you firm regardless of the outcome (please provide details of the dispute and the outcome).

The competitive nature of Commonwealth procurement has meant that we often agree to refinement of scope and fees in relation to specific engagements with our clients and these are conducted throughout the procurement process. Additionally scope can both increase and decrease during a project primarily based on client priorities. While we are not aware of any legal actions from Commonwealth entities, from time to time the quantum of fees paid and the timeline of work have changed during the course of a project as a result of discussions with our clients.



15. Do the CEOs of the 'big four' accounting/consulting firms (Deloitte, EY, KPMG, PwC) catch up regularly? If so, how often, where, who is present, and is the chartered accountants association present?

The CEOs of PwC and our competitors meet around once per year. They do not discuss commercially sensitive matters at these meetings. On other limited occasions they attend meetings; for instance, meetings with regulators.

16. Could you provide an upper and lower ranges of incomes for partners, including bonus profit shares and so on at your firm? Or, if that's too much, the range for partners who work primarily on government work?

Unfortunately we are unable to answer this question as this information is commercial-in-confidence.

17. Could you provide a copy of the document you use an independently set ethical framework for your accounting?

PwC Australia adheres to the independence requirements in the Corporations Act and in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board (APESB) in Australia (www.apesb.org.au/uploads/standards/apesb_standards/standard1.pdf).

For financial statement audit our compliance with the related independence legislation is regulated by ASIC and similar global regulators.

In addition to these codes, PwC Australia adheres to ethical standards applicable to all firms in the PwC network. These standards cover a variety of areas, including ethics and business conduct, independence, anti-money laundering, anti-trust/fair competition, anti-corruption, information protection, firm's and partner's taxes, sanctions laws, internal audit and insider trading. The network standards that PwC Australia has adopted include a Code of Conduct (<http://www.pwc.com.au/about-us/code-of-conduct.html>) and related policies that describe the behaviours expected of our partners and other professionals. All partners and staff undertake regular mandatory training and assessments and must submit annual compliance confirmations. Compliance with ethical obligations is monitored by PwC leadership.

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