

Senate Standing Committees on Finance and Public Administration

Inquiry into management and assurance of integrity by consulting services (Consulting services)

KPMG responses to Questions on Notice from public hearing on 27 September 2023

Independent director remuneration

Question 1:

Senator O'NEILL: Is there commensurate monetary inducement for people to put that aside and undertake this role?

Mr Yates: Probably not, no.

Senator O'NEILL: So, there goes some of the esteem in which they might be held. What's the value of their work? We've had some discussion about remuneration being seven times the salary of the Prime Minister. Yesterday McKinsey considered they didn't even need to disclose. This is a private little club where people get a lot of money. What does an independent director get paid? Can you put a number on that?

Mr Yates: Could I take that on notice to give you the exact figure? It's in the ballpark of \$100,000.

KPMG Response:

- 1 The two KPMG Independent Board members are each paid an annual fee of \$160,000.

Self-reporting obligations

Question 2:

Senator O'NEILL: The only thing we have now is a significant financial impost if people step aside from what's been clearly written and further enunciated today by the Department of Finance about immediate reporting of failures, or reports to particular entities, or discernment by you as the CEO and your advisory team around ethics about behaviour that would be considered not fit and proper for governance and unethical by professional standards?

Mr Yates: As I said, I think it's a really valid point, and it's not the optimal system. There's no doubt about that.

Senator O'NEILL: Can I ask you on notice to think about what such a system might look like. I did ask McKinsey and Boston Consulting yesterday. They have similar challenges to you. They haven't got the audit dimension to manage, but they have consultancies with professionals who have no professional register. So, if you could think about that would be good. But if you want to go back to the speak-up culture and your changes?

KPMG Response:

- 2 In KPMG's submission to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into *Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consulting Industry* we noted that we are supportive of constructive engagement with any reviews or inquiries which may consider enhanced regulatory oversight of aspects of professional services firms. KPMG's submission also supports the introduction of an Integrity Charter for organisations providing services to government – the new charter could be

administered through reform of the Commonwealth Procurement Rules or through a code of conduct as part of an existing or new membership of a professional association.

Exam cheating

Question 3:

Senator O'NEILL: You indicated there was some concern and you referred again to the exam cheating matter. You said in evidence that the way it came to light is 'one of our junior team members did highlight to someone in the chain of command and it was reported to the senior leadership'. And that 'upon hearing that, there was a brief investigation to determine if there was anything to see'. Your evidence suggests that a KPMG employee reported this cheating. Isn't it true that it was a specialist contractor, not a junior team member, who reported the scandal?

Mr Yates: I'd have to take that on notice. I'm not sure of the distinction—

Senator BARBARA POCKOCK: It was on notice last time. It's in the transcript?

Mr Yates: Did I? I apologise. I don't recall that. I'm happy to go back and look at that.

Senator O'NEILL: Your evidence stated that the matter was reported through the chain of command. Isn't it true that the initial report was actually made through your international hotline? In fact, didn't the complainant expressly call out director- and partner-level misconduct, meaning that the individual was unable to make this report through the chain of command? They're concerns I have that feed into what you've been talking about, your speak-up culture. We need to get that accurately on the record.

Mr Yates: Could I respond to that in a couple of ways?

Senator O'NEILL: I might just leave you to give that on notice because we do have to get through a lot in the time we have you here...

KPMG Response:

- 3 The individual highlighted the matter to our internal Ethics and Independence team. That communication was the initial report and resulted in the commencement of our investigation. The Ethics and Independence team encouraged the individual to share any further information through the KPMG Whistle-blower Hotline. An anonymous report was then received through the KPMG international Whistle-blower Hotline.

Security clearance referrals

Question 4:

Senator O'NEILL: Mr Low, do you have explicit internal management processes and procedures for referral of staff members to AGSVA who have been shown to engage in concerning behaviour related to classified information or any other behaviour which may undermine their capacity to maintain a clearance?

Mr Low: There is a requirement under the Defence Industry Security Program, which we've been members of since 2008, and we met again in June 2021 to report information breaches—

Senator O'NEILL: That's the requirement from the department. My question goes to your explicit internal management practices.

Mr Low: We have a chief security officer under that program who's required to liaise with the other security officers within our business to take those things forward to the relevant common authorities.

Senator O'NEILL: That's your internal management practice you've just described to me. How many reports have you had?

Mr Low: I'm not aware of any reports.

Senator O'NEILL: That doesn't accord with concerns that have been raised with me by whistleblowers. This goes to a matter of security. I'm sure I could speak for other senators as well. We have been receiving many complaints from whistleblowers who are saying there is continued access being provided, and there are people in and out of teams who have access to important information within Defence. I would ask you to take on notice to have a good look at your internal management practices and any reporting of inappropriate use of classified information or other behaviours that would undermine somebody's capacity to maintain a clearance. Have you referred any staff to AGSVA for review of their clearances?

Mr Low: I'd have to take that question on notice.

Senator O'NEILL: Have you ever referred a staff member to AGSVA for concerns around their capacity to manage classified information or maintain their clearance?

Mr Low: I'm not aware of it. I'll need to take that on notice.

Senator O'NEILL: How many staff have you referred to government departments for review of their clearances?

Mr Low: I will take that on notice as well.

Senator O'NEILL: Have you ever referred a member to a government department with concerns around their capacity to manage classified information?

Mr Low: I'm not aware of any incidents, but I'd have to take it on notice.

Senator O'NEILL: Please provide us with an overview of your internal human resources and misconduct reporting procedures, and if you could highlight any intersection with your procurement requirements and your requirements under Defence requirements to meet those standards? Do your human resources procedures account for potential inclusion of security classified information in complaints?

KPMG Response:

Human resources and misconduct reporting procedures

- 4 At KPMG, we have enhanced our reporting to monitor and track our conduct complaints including providing information to our National Executive Committee and National Board.
- 5 In FY23, 142 reports were raised regarding the conduct of our people, with the majority of these (89.4%) related to a breach of a Code or policies (other than sexual harassment). At the end of FY23, 84 cases had been substantiated partially or in full. This compares to 38 in FY22. Consequences for the individuals who behaved contrary to a Code or policies included exiting the firm, counselling and written warnings, and impacts to end of year ratings and bonus payments. Those who remained with the firm have received a clear directive on how they must act in future.

Security clearance referrals

- 6 KPMG's Security Officers have a responsibility to monitor people at KPMG and report any notifiable events to the Australian Government Security Vetting Agency (AGSVA). KPMG has referred security clearance holders to AGSVA in line with their guidance on reporting notifiable information¹. Given the nature of AGSVA's reporting requirements, the details of these referrals are treated confidentially for security reasons.

Tax Practitioners Board (TPB) referrals

¹ [Security Officers | Sectors | Defence](#)

Question 5:

Mr Yates: In terms of the bodies you would report something like that to, it is a self-reporting obligation. We actually worked with individuals and eight of them self-reported. It's not a perfect system. We worked within that and had people self-report

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Senator O'NEILL: You on notice indicated you'd not referred anybody to the TPB over the past five years—

Mr Yates: Correct.

Senator O'NEILL: for failure to be a fit and proper person. Why did you not report those eight individuals to the TPB?

Mr Yates: Because they weren't practitioners that would come under the purview of the TPB.

Senator O'NEILL: So, the only place that it could be reported was CA ANZ?

Mr Yates: Given the nature of the work those individuals do, that was the appropriate place for that report to be done.

Senator O'NEILL: So, none was involved in tax?

Mr Yates: I don't want to misspeak so I'll confirm that on notice, but I think the answer is zero, yes.

KPMG Response:

- 7 None of the individuals that self-referred to CA ANZ in relation to the exam cheating matter were registered tax agents.

CA ANZ Referrals

Question 6:

Senator O'NEILL: Can I ask whether the eight people who self-referred to CA ANZ are still with your partnership?

Mr Yates: They weren't all partners. I'd have to go back and remind myself of exactly who they were. In fact, not all of the eight were with the firm at the time. All of the individuals who were with the firm at that point in time self-reported, is my understanding. It's a conversation they had with CA ANZ. We also spoke to people who actually had left the firm and asked if they would self-report, and encouraged them to self-report, and some of them did that.

Senator O'NEILL: But not all of them?

Mr Yates: I can't recall that one.

Senator O'NEILL: Can you take that on notice?

Mr Yates: Everyone who was working at the firm at the time I believe did self-report.

Senator O'NEILL: What were the consequences? If you could take that on notice as well?

Mr Yates: Sure.

KPMG Response:

- 8 As Mr Yates responded at the hearing, all relevant individuals who were working with us at the time self-reported in response to CA ANZ. That represented six individuals, of these five are still with the firm. We also contacted the other relevant individuals who had left the firm and asked them to self-report - we don't have visibility on these responses. We understand that CA ANZ

communicated the consequences of the process confidentially to each individual. We are not privy and therefore unable to disclose the detail of the outcomes provided to individual CA ANZ members.

Power Mapping

Question 7:

Senator BARBARA POCOCK: What does the designation of 'sponsor' mean to you? These are I think the five people in the group with the dark green triangle. Usually the meaning of 'sponsor' means a supporter, a strong supporter. Usually it means a donation of money. I'm not suggesting that's necessarily the case here at all. But there are five people there, for example, who are designated sponsors. What does that mean to you?

Mr Yates: I'd be only speculating in terms of what that name means, and I don't really want to speculate in the committee. I'd have to take that on notice to understand what the word means in the context with which it's meant here.

KPMG Response:

- 9 The 'Sponsor' legend is unfortunately worded but sought to highlight the people within the organisation who were KPMG's primary contacts for the delivery of services on the engagement in question.
- 10 KPMG has provided an extended answer to this matter in our letter dated 24 October 2023 sent in response to a further request for information received from the Chair on 12 October 2023.

Lateral hires from the Department of Defence

Question 8:

Senator BARBARA POCOCK: The committee is waiting. We've just heard from the Department of Finance that they are looking at this and there are inquiries underway within government, as there should be. Another claim on that program was that KPMG had very significant influence over Defence staff and that you had hired 100 Defence personnel over the last five years? Is that ballpark correct?

Mr Yates: The individuals we would recruit from Defence would be at all levels of our organisation. We don't keep detailed records of the more junior people in the firm. What I can confirm is that one person has joined our partnership from Defence in the last five years. In terms of people joining our firm from Defence, many particularly of the more junior people actually join our firm not to work on Defence, and in fact we encourage that. That number may be right, but that would be 100 out of 10,000, and 100 out of the 1,700 people, there or thereabouts, would work on Defence engagements in any given year.

Senator BARBARA POCOCK: There are firms that require a cooling off period or prevention of you working in an area where you've been previously employed. You have no such wall, no such control?

Mr Yates: Yes, we do.

Senator BARBARA POCOCK: For how long?

Mr Yates: It ranges from either six months or 12 months depending on the seniority of individuals.

Mr Low: To give some further colour to that, under our requirements when someone has been working in a senior role within government, political or otherwise, within the past two years it triggers a conversation between the divisional leadership and our ethics and independence partners about what are the appropriate requirements that they're experiencing or required to abide by in terms of their separation, and we make sure that we fulfil that when they come into our firm.

Senator BARBARA POCKOCK: But you actually can't tell me how many people? The allegation is 100 people. Could you on notice supply to us the number of people in the last five years who have joined your firm and the level at which they have joined over that period?

Mr Yates: We'll take that on notice.

KPMG Response:

- 11 Whilst employees' employment history is provided in the recruitment and onboarding process, it is not stored in a way that can be easily searched in our systems. However, we have undertaken a high-level analysis of our current workforce and around 130 people have defence experience, some recent, some from many years ago. This is out of around 1,700 people that might work on a defence engagement in any given year. This does not mean that they all joined directly from defence.

Financial incentives for whistleblowers

Question 9:

Senator O'NEILL: Can I just point you to the inquiry undertaken by the Parliamentary Joint Committee on Corporations and Financial Services into that issue? I'd just ask you on notice if you've ever considered rewarding your whistleblowers financially for revealing to you where there are failures in your organisation. If you could take that on notice? Chair, I have a line of questioning I want to prosecute.

KPMG Response:

- 12 KPMG is aware that the Parliamentary Joint Committee on Corporations and Financial Services considered a reward system in its report to Parliament dated 13 September 2017. KPMG has not considered independently implementing a reward regime outside of any legislative framework.

Warren Mundine

Question 10:

Senator O'NEILL: Is it correct that Mr Mundine asked for a fee in return for presenting to KPMG on the no campaign to the Voice?

Mr Yates: I'd need to take that on notice.

Senator O'NEILL: Was that fee in the order of \$30,000?

Mr Yates: I'd need to take that on notice. I'm not aware of that.

KPMG Response:

- 13 KPMG invited Senator Jacinta Nampijinpa Price from the NO side of the debate and Dean Parkin from the YES side of the debate to present to our Board and National Executive Committee.

Regulation of Workforce

Question 11:

Senator O'NEILL: There's an organisation. So, give us an audit. If we could ask this on notice of all of the big seven that have come before us, through the secretariat: whom is your workforce? That's a fundamental question. Whom is your workforce? Where are they currently regulated?

Mr Yates: We'll do our best to comply with that.

KPMG Response:

- 14 KPMG Australia employs more than 10,000 people and partners and we have offices in every state and territory, recently opening offices in Geelong and Townsville.
- 15 The percentage of our people that work across our different divisions is as follows:
- Audit & Assurance, representing around 14% of our workforce.
 - Business Services, representing around 16% of our workforce
 - Tax & Legal, representing around 7% of our workforce.
 - Deals Advisory & Infrastructure, representing around 11% of our workforce.
 - Consulting, representing around 36% of our workforce.
 - Enterprise (mid-market and family business), representing around 16% of our workforce.
- 16 KPMG's workforce offers a broad range of professional services to our clients, meaning our workforce is subject to an extensive and complex framework of overlapping obligations from a range of entities.
- 17 Services across our client-facing divisions are subject to specific regulatory requirements, professional codes or commitments to professional bodies for example these include people offering engineering, property, insolvency and restructuring, audit and assurance, sustainability reporting, data security, forensic services, and legal services. KPMG and its personnel are overseen by over 40 organisations, many of which inspect the firm and require the firm to hold specific licenses. Non-compliance can result in significant firm-wide or personal financial and operational impacts.
- 18 KPMG welcomes Treasury's announced examination of the regulation of consulting, accounting and auditing firms and is supportive of a government review into whether ASIC should have an extended regulatory role over our profession.