

REPORT ON PROCEEDINGS BEFORE

PUBLIC ACCOUNTABILITY AND WORKS COMMITTEE

**NSW GOVERNMENT'S USE AND MANAGEMENT OF CONSULTING
SERVICES**

CORRECTED

At Macquarie Room, Parliament House, Sydney on Monday 5 February 2024

The Committee met at 9:15.

PRESENT

Ms Abigail Boyd (Chair)

The Hon. Mark Buttigieg

The Hon. Scott Farlow (Deputy Chair)

The Hon. Dr Sarah Kaine

The Hon. Jacqui Munro

The CHAIR: Welcome to the tenth hearing of the Committee's inquiry into the New South Wales Government's use and management of consulting services. I acknowledge the traditional custodians, the Gadigal people of the Eora nation, on whose lands we are meeting today. I pay my respects to Elders past and present and celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales. This land is, was and always will be Aboriginal land. I also acknowledge and pay my respects to the Aboriginal and Torres Strait Islander people joining us today and those watching online.

I ask everyone in the room to please turn their mobile phones to silent. Parliamentary privilege applies to witnesses in relation to the evidence they give today; however, it does not apply to what witnesses say outside of this hearing. I urge witnesses to be careful about making comments to the media or to others after completing their evidence. In addition, the Legislative Council has adopted rules to provide procedural fairness for inquiry participants. I encourage Committee members and witnesses to be mindful of these procedures.

Ms DIANE RUTTER, New South Wales Lead, Scyne Advisory, sworn and examined

Mr ADRIAN LOADER, Board Director, Scyne Advisory, sworn and examined

Mr RICHARD GWILYM, Acting Chief Operating Officer, Scyne Advisory, sworn and examined

The CHAIR: Welcome, and thank you for making the time to give evidence here today. We are very grateful. Would you like to start us off by making a short opening statement?

ADRIAN LOADER: I'm a board director of Scyne Advisory, but I'm also co-founder of Allegro Funds. Thank you, Chair, and to your Committee, for inviting us today. Your first invitation came in the middle of last year, and we were unable to attend until we had completed the transaction, in November 2023. We thank you for your patience. I would like to say up-front that Scyne Advisory understands unequivocally the importance of the public's trust in the Government's use and management of consulting services. In this light, the breach of this trust by PwC Australia was damaging and completely unacceptable. The conflicts of interest were plain. It has rightly led to higher scrutiny on all external suppliers to governments and circumspection from clients who use our services. Governments require and the community deserves a high standard.

Allegro Funds is an Australian-based private equity fund manager and led the Scyne Advisory buyout transaction. Allegro has been operating since 2008 and specialises in complex buyouts and transforming those companies to create great businesses. Allegro has a strong track record in helping create and grow businesses which have a clear purpose. Some examples include Discovery Parks, where we transformed the business from a small, distressed caravan park business to Australia's largest regional accommodation business; The Ghan and Indian Pacific railways, where we transformed them into iconic, 100 per cent focused, experiential tourism business; and Slater and Gordon, where we are focused on helping it become the best social justice law firm in Australia.

In June 2023, following the effective grey banning from Federal accounts, PwC decided to sell its public sector facing business, and Allegro was approached as a potential purchaser. PwC were looking to transfer to a new owner, a group of professional, capable people dedicated to supporting government whose work and reputation were completely undermined by the PwC TPB matter, something in which they played no part. Allegro engaged with what has become the leadership of Scyne and we collectively agreed that the government consulting industry had to adapt to a new paradigm. Scyne Advisory needed to be independent from PwC, solely focused on the public sector with ASX level of governance and adopting a public sector code of conduct standard. We needed to eliminate the inherent conflicts of serving both the public and the private sector.

We agreed a vision to be the public sector specialists, focused on helping governments and their agencies build more resilient, secure, equitable and prosperous communities. That vision has guided the establishment of Scyne Advisory. As part of our transaction process we had the Hon. Andrew Greenwood, a retired Federal Court judge of 17 years standing, conduct a review of governance and probity of the PwC employees who could potentially come over to Scyne. This comprehensive process ensured that no former PwC partner or staff member implicated in the Tax Practitioners Board matter—or any other matters that raise questions of ethical judgement—would join Scyne. We also embedded contemporary ASX-listed companies' standards of governance. Scyne is an ASIC-registered company, not a partnership like the big four operators. We have established a board of directors with independent share and non-executive directors. Unlike partnership structures, they are not elected by partners or employees and nor is the CEO. The independent chair is John Mullen, who has over 15 years experience as an ASX-listed non-executive director, including as chair of some of Australia's biggest companies.

Andrew Greenwood has also joined the board and chairs our probity, conflicts and ethics committee. In addition to Justice Greenwood's governance and probity review, Scyne has established a strong ethical framework, including an employee code of conduct and organisational values, which were agreed with all employees. In summary, Scyne is set up differently to the big four consulting firms. We believe our model sets a new standard for public sector consulting. There is a significant amount of work we have to do to re-establish trust but our conflict-free foundation addresses a fundamental issue. We welcome the issue of this Committee and your questions.

The CHAIR: Thank you very much. The way we work this is a bit of a free-flow question from me and each of my colleagues here. I will start by asking about the very existence of Scyne. We did ask PwC whether the fact that they had hived off their government work into a different entity was an effective admission that it is not actually possible within the one consulting firm to ethically conduct business for both government and private sector. They refuted that. I would like to ask your view on why you thought or why you think it is necessary for government work to exist in a separate entity away from the rest of the consulting firm.

ADRIAN LOADER: Thank you very much for your question. First of all, no, Scyne was a vision-based transformation. No, the way which we approached the whole acquisition was that there had to be a different model and we believe that the best model was that it had to be its own corporate, rather than a partnership, and therefore a different legal entity; and also that it had to be kind of conflict-free from private sector companies because of the inherent conflict of interest. It was really that new model that we thought was very important. Addressing how PwC did the transaction, they had to separate their business, their public-sector-based business to their private sector business. To do that, they had to reorganise themselves to put their public sector business into its own entity so that we could buy that entity. Without doing that, we can't buy anything because there's nothing actually to buy.

The CHAIR: You mentioned there the inherent conflict of interest. I also see it as an inherent conflict of interest to have a business that is both reliant on private sector and public sector work. Does that mean, then, that there is an inherent conflict of interest still existing in EY, Deloitte, KPMG? Should they also be hiving off their government work?

ADRIAN LOADER: I can't really answer for them, but what I can say is that we thought long and hard and we talked to a lot of people about forming our own model, and our own model adopts a very clear framework—whether we are for purpose and that purpose drives everything that we do. We talked long and hard about whether we should do private sector work and we thought that that wasn't appropriate. We think that people want more. I think that there is a change. If you look at the foundation of your Committee, it started in May and, when we went around and spoke a lot to all different stakeholders, people want change.

The CHAIR: I appreciate you're being diplomatic about the other firms. But I think, with respect, if you're saying that you believe there's inherent conflict between government and private sector work within the one consulting firm and the other firms still have that, it follows then that you believe that there is an inherent conflict of interest still existing in those other firms, correct?

ADRIAN LOADER: I think it goes further than that. If you look at the individual partners—if you're doing work on both sides, that's where the inherent conflict is. The question really is that—there is a conflict. The real question is how do you manage it and what are the ramifications for how you actually manage it? It's easier to manage if there's no inherent conflict and so therein lies, I think, the challenge.

The CHAIR: When you talk there about there being one particular partner working for, for example, a company that would benefit from a particular government policy as well as for the Government, I don't think that's what we're seeing in these firms necessarily. It appears to be more that we're seeing whole departments that are set up to service particular work and, whether or not you're working in that department, you're aware as a partner of that consulting firm, are you not, that what you do in your work is going to impact on the profitability of the firm elsewhere? Do you think that conflict of interest is broader than just a partner-by-partner proposition?

ADRIAN LOADER: If you look at each of the firms—first of all, I'm no expert on those firms, so there's a very, very big caveat here that I'm not speaking as an expert. But they've all got customer relation management tools. How they manage that depends on what information people are seeing. I think there is a partner-by-partner because, if I look at how we separated from PwC and took people over—and I'll let Richard and Di talk about this—you had some partners who might be doing 10 per cent of their time on public, 90 per cent of their time on private, or the other way around, who came over. And there was quite a lengthy debate about that as well. So I think partners do spend time on both types of clients because that was certainly our experience with PwC.

The CHAIR: We've asked government departments a lot of questions about why they use consultants and I think we've got to the point where there seems to be a general acceptance that in not every circumstance where we use a consultant is it necessary and that we have, in my view, decimated our public sector by our reliance on consultants. But when I put that to governments and people who have been responsible for using consultants over the period of time where it has increased and we see a bit of a shocking level of consulting used, the response we get back from government is that it's really important that they use consultants because consultants have, unlike the public sector, a broader remit and they see not just government work but they also see private sector work and, because of that, they're able to import the ideas from the private sector into the work that we do in government. That's one of the main reasons the Government is apparently using consultants. When it comes to then using a company like yourselves that is now only doing government work, does that rationale for using consultants fall out the window a little bit? How do you reconcile those two things? How are you still able to give that value instead of us trying to build the public sector to be able to have this functionality that you're currently serving?

RICHARD GWILYM: Maybe I take that one, Madam Chair. As we've looked at how we established Scyne Advisory, we've thought about a number of things, and one of those is exactly that point. Government does require skills and capabilities that we possess within the organisation across some 1,200 people that we've brought, and that's a range of multidisciplinary skills that we have inside the organisation. From time to time there will be

a need to draw on private sector knowledge or expertise, but we want to do that in a different way—not where we draw on it from across the organisation but do that in conjunction with government to understand where that expertise is required and do that openly and transparently to ensure that that manages any perceived conflict of interest through that process.

The CHAIR: I want to pick up on one other stream of questions and then I will throw to the Hon. Dr Sarah Kaine, who is waiting online. When the PwC partners came over to Scyne, obviously there would've been a negotiation at that point in relation to the entitlements and terms and conditions. I know I've read it being reported that the staff for Scyne—not necessarily the executive level but the staff that were brought over—retained their entitlements. Have the ex-PwC partners retained their retirement entitlement, or their post-termination entitlement?

RICHARD GWILYM: Maybe if I take that in a couple of ways. The partners that have come across into Scyne—we are not a partnership; we are a corporate. So all of our partners that have come across are on executive service arrangements, consistent with many other organisations. So a lot of the things that existed within the partnership have ceased to exist for those partners. The PTP is a really good example of that.

ADRIAN LOADER: What does PTP stand for?

RICHARD GWILYM: The partner termination plan that was referred to, or the retirement plan. We no longer possess those. They are not something that exists for partners within Scyne. We are now paid on a monthly basis, PAYG tax and paying into our own superannuation plans as a consequence.

The CHAIR: So that PTP—when you came over it was cancelled? Your entitlements under there were cancelled entirely or were they paused?

RICHARD GWILYM: No. There was a valuation that was undertaken by PwC and a payment made to equate to the benefit that had been accrued up until that point in time for partners that came across into Scyne. So that vehicle ceased to exist on the day that the transaction was completed.

The CHAIR: Okay, so you were compensated. Just to be absolutely clear then, there is no residual financial interest that you hold in PwC?

RICHARD GWILYM: There is no residual financial interest, and there is no residual link for the partners that have come across into Scyne with PwC.

The Hon. Dr SARAH KAINE: I have a question. I've heard you talk about the vision that was part of setting up Scyne. And it's for purpose; I mean, it's for purpose but it's for profit. I have read the information that's been sent to us about the policies and procedures and code of ethics. But isn't it the case that you're still for profit, so there are still going to be KPIs for people to meet? So there still will be pressures—the same kinds of pressures that are on consultants in other firms to deliver. Also, I've read through, as I said, the ethics, policies and procedures et cetera and, to be frank, if I picked up any of the policies and procedures of any of the big four, it sounds much the same. It doesn't sound much different. You've talked about the corporate structure but, aside from that, what is different about how you're going to operate, given it's still for profit and all of those pressures still remain, I'm presuming, on all of your staff?

RICHARD GWILYM: Thank you, Ms Kaine, and thank you for the question. We have a strong belief that there is a position for an organisation like ours, that has been established in the way that it has, to continue to conduct for-purpose work, yet do so in a commercial manner. The range of problems and challenges that government is trying to tackle right now means that we believe that there is absolutely a legitimacy in being able to do for-purpose work while making a profit.

What we have been very clear about, as we have established the business, though, is that we will not pursue profit over purpose. Everything that we have done, as we have looked at the way that we want to establish the organisation—the ethics frameworks that we've put in place, we do believe, are different. The way in which we have looked at governance, the independent board members that we have in our organisation and the standard that we are going to try and hold ourselves to—it is one that is different, and so this is an organisation that we believe has been established on different foundations. We are putting in place a balanced scorecard that will make sure that that is lived through every action that we do. That will consist of four elements.

The first of those, and the one that we will not walk past, is values and ethics. The second is around building people and capability, because we are only as good as the talent that we have in the organisation and the capability that we have been able to build. The third is around the impact that we're delivering for our clients and the impact and value that we are contributing through the work that we're doing. The fourth is around the commercial component of the business, because absolutely we need to run a business that is commercial, and that needs to come together in that way. But what we're saying is that we want to build a business that is different. We know

more acutely than anybody of the issues that led to our creation, so that is front of mind in everything that we're doing, and we know that trust is something that—

The Hon. Dr SARAH KAINÉ: This is an issue that we've raised in other hearing days. You will, in essence, be marking your own homework, though, won't you? There's no external—I mean, there's the corporate regulation, but, aside from that, you'll be marking your own homework as to whether you're meeting those expectations.

RICHARD GWILYM: I think the clients that we work with will be the judge of whether we are contributing value through the work that we do. We will be having continuous conversations and dialogues with many of our clients about the quality of work that we do and the impact that we are having, so I don't believe that is the case. We know it's going to take time to rebuild trust. As I said, we are more acutely aware than anybody of the impact of the things that led to our creation, and we're going to have to continue to work on that every single day to rebuild trust in society.

ADRIAN LOADER: Do you mind if I just add something? I think you've got to look at the governance structure and why it's different. First of all, it is a corporate, which is very, very different. The second is that it has got an independent chair. The third is that it has got, kind of, real committees. If you think about the committees we've set up, we have set up an audit and risk committee; we have set up a people and culture committee; we've set up a probity, conflict and ethics committee; and we've set up a security and tech committee. Each of those committees is run by a director. If you look at the probity, conflict and ethics committee, it is run by an ex-judge. That is like a fundamental difference to the way which the big four have traditionally operated, where they have been a partnership or the committees have basically been run by partners.

The remit from Allegro is "build the best business you can build". The reason why Allegro wanted to get involved in this opportunity was because we saw there was a need for change and we wanted to, kind of, set up a business which basically met the needs of the users, and we thought the structure that we put in place and the governance structures and the people who we've got in place would help drive that. Ultimately, the answer to your question is you can have anything you want written on a piece of paper but, unless you live it and unless you set the expectation from the top, it is only written words on a paper.

The Hon. Dr SARAH KAINÉ: In other words, to summarise, for at least a little while you're asking for a leap of trust from many of your clients. You're saying that the proof will be in the pudding, really. For the first little while anyway, it will be a leap of trust of whether you're going to be able to deliver on that.

ADRIAN LOADER: No, I'd put it differently. I'd say that every day you have to live the values, right? Because it's not for a little while that you want to live those values and then suddenly it's different. I would say that we've been doing this since June last year. We completed the transaction in November and we're obviously early days, but we've done lots of listening to clients, lots of talking to clients, lots of workshops. I might get Di to talk about some of the things that we are doing because this is a standard that we want to engage with and talk about, because we think it's very, very important. I think it is a differentiator, even though the difference is subtle. Purpose aligned with values equals culture. It's really as simple as that.

The CHAIR: Before we go to you, Ms Rutter, I would like to understand one of the things that perplexes me. When we look back at the PwC scandal that led to all of this happening and kicked everything off, we had a group of people from within PwC who were seen to be involved in the tax scandal, but those things don't happen in a vacuum. I've worked in enough corporate institutions to know that those things are a product of a deeper culture. PwC did their review, the Switkowski review—I can never say that word. My sincere apologies. Now, that didn't look into the culture and the factors that led to or that perhaps were facilitating or enabling that scandal to occur in the first place. That review only looked into the procedures and processes in place at the time of the review. My question is this: You've vetted the people who came over to Scyne to make sure that they weren't involved in that particular scandal, but how can you be so sure that you've not imported some of that culture from PwC that allowed that sort of rot to happen in the first place?

RICHARD GWILYM: Yes, Ms Boyd, as you alluded to, I think it has been really well documented through the Switkowski review and through other things what led to our creation. As we've thought about the business that we're trying to establish, there are a large number of people that have come across that are hurting deeply from what happened. They were in an organisation where this happened and they do not want to be part of an organisation where similar things can play out in the future. We've looked at all aspects of culture, and culture takes time to actually deliver. But we're leaving no stone unturned in terms of the governance aspects that Mr Loader has already talked about.

We have co-created our values with our people. We had the majority of the organisation take place in actually understanding what sort of business they want to be part of, and actually having their say on what the

values and behaviours would look like, and then thinking about how the policies that we're putting in place reinforce that on a day-to-day basis. It is about tone from the top, but culture is also something that all of our people are going to hold us accountable to. And because of where they've come from, quite frankly, they're going to hold us accountable to a really high standard. That is something that we're acutely aware of and focused on in every action that we're taking.

DIANE RUTTER: Chair, if I can elaborate a bit more. As Richard has mentioned, culture was our first priority as we looked to establish Scyne. We did extensive listening tours right across the States, all across Australia, understanding from our people what is it that they want to leave behind, what is it that they want to create that's new in this new entity, Scyne Advisory, and what are some ideas for how we can improve and start from success from day one. That was one thing. We also, as Richard mentioned, co-created all of the values with our people. We did a 48-hour values jam, if I can call it that. It was essentially—the purpose—to hear from our people exactly what it is and who they want it to be and how we want it to behave under Scyne. That led to the creation of our values.

As Richard said, it is a journey, but it takes a top-down leadership to emulate those values, but also it takes the muscle memory and the day-to-day behaviours in how we operate, which takes time for those values to come to life. I might give one example of one of the values that really obviously is quite relevant to this Committee and this discussion, as defined by ethics. That came from our people, not from the leaders, in terms of defining that value. But what's really important is how we then bring that to life through our day-to-day processes. And if I look at that example, we have these go/no-go decisions around—essentially, an RFP might come in to us and we assess it through a go/no-go process. We have amended that process to now consider, "Does it add capability to the public sector? Does it add additional value above and beyond?" And at times we actually say no-go to those engagements or responses if we don't feel it is hitting those marks and we have assessed it from a confidentiality perspective as well. I hope that provides just an example of how we take the values down into our processes and embed them.

The Hon. SCOTT FARLOW: Ms Rutter and Mr Gwilym, you both have come from PwC. Could you explain to the Committee what you see as some of the key differences now in Scyne compared to the way things operated at PwC previously?

RICHARD GWILYM: Do you want to go first?

DIANE RUTTER: Sure, happy to start. Yes, I have been at PwC for a while. I'd say that the noticeable and observable difference, even though we have been operating I think it's just over 10 weeks now, is access to leadership. We're hearing from our people that our team and our people feel incredibly connected directly to the leadership. And related to that is we're hearing from our people—and I can feel it too as a leader in New South Wales, you know, very close to the people that I lead on the ground—that the ability to speak up, share ideas and to see those ideas being actioned by the leadership is a massive one. And then I think the other one is just the removing of administrative burden so that our people can focus on delivering the value that they want to and love to do with our clients in the public sector.

RICHARD GWILYM: If I just add to that, maybe—if I come back to the fundamental premise about why we established Scyne and what we wanted to be different, it goes to a number of the aspects that Adrian talked about in the opening statement and that we have touched on already. We are not a partnership; we are a corporate entity. We have an independent board with a number of independent members, including John Mullen, who has joined as our non-executive chair. The CEO role is not one that is going to be voted on by the partners within the organisation; it is one which is going to be determined by the board. And that CEO is going to be accountable to the board and will be accountable to the standards that we have set for the organisation. We have independent members that are running those committees that have been established as part of that board exercise. The regular reporting and analysis that goes through that process is very different from where we've come from and it is a standard that we are going to be putting in place moving forward in everything that we do.

The Hon. SCOTT FARLOW: Mr Gwilym, to that point, how does that manifest itself in the day-to-day operations of the organisation? If you're going for a contract, for instance, how does that manifest itself in terms of having that different arrangement? What sort of considerations do you take into account that you may not have before, or how do you operate differently?

RICHARD GWILYM: One really practical example that we have looked at is the conflict of interest policy. There are over 100 policies in the organisation which have been completely redesigned for what that looks like in Scyne, and just one of those is that conflict of interest policy. So when we are appraising new work, even though we are only serving the for-purpose sector, we are looking at conflict of interest and we're asking all our people to declare any conflict of interest moving forward on that job. That is something—

The Hon. SCOTT FARLOW: And you didn't do that previously at PwC? There was no declaration?

RICHARD GWILYM: Conflicts of interest was undertaken, yes, but we're asking every individual at the start of a job to declare that conflict, and anything that we think needs to be raised up to Andrew Greenwood will be raised to the PC EC to be reviewed at that level. As Richard alluded to, that has already led to us turning down work where we think that is not of the standard that is expected of us.

The Hon. SCOTT FARLOW: Mr Loader, you outlined before—I think the terminology was ASX-listed standards of governance. Do you think that that should apply to all of the big four, that there should be ASX-listed standards of governance in terms of their operation?

ADRIAN LOADER: I think the challenge for them is that they're not corporates. But we have taken on the ASX standards of governance and we've added another one, which is transparency, as well. I think the spirit of them should be absolutely applied because ultimately you want your providers of services to have good corporate governance themselves. That's a very useful benchmark, I think, to use.

The Hon. SCOTT FARLOW: Thank you. In—I think it was the middle of last year—about July, an interim approval process for engagement of contracts with PwC was issued by the NSW Procurement board. Is that still in place in terms of contracts with Allegro? Sorry, I should say Scyne Advisory now.

DIANE RUTTER: I'm happy to answer that. I've been intimately involved in the procurement and panel process to date, for Scyne Advisory. If I just take a quick step back—as soon as we were a standalone entity, in November, we actually have been working very, very closely with NSW Procurement to reapply for every single panel. I can proudly say that we are on majority, bar a couple that have been submitted and were pending the application. We've been approved as a standalone entity as Scyne. What that meant is we had to reapply for all panels, capture over, I think it was, 100 referees from clients to submit. That's been a very rigorous process, and I just wanted to acknowledge NSW Procurement for taking that sort of rigorous process through. My understanding is that the procurement board did sit in December and that advice that was issued, that I believe you're referring to, has now been—what's the terminology? I think—

The Hon. SCOTT FARLOW: Rescinded or—

DIANE RUTTER: Yes. Filed and is no longer applicable, but further details on that are—I direct you to NSW Procurement.

The Hon. SCOTT FARLOW: Thank you. One last question, in terms of the contracts PwC had with the New South Wales Government previously. Has Scyne Advisory taken over all of those contracts?

DIANE RUTTER: We're in a bit of a transition process at the moment. If I can summarise it into three buckets of those types of contracts, there are contracts where—there's only one, to my knowledge, in New South Wales, where PwC are continuing to deliver that project, and that has been because delivery is almost complete or it's well in the middle of delivery and the client has requested not to disrupt delivery of that program. However, we've got a transition plan in place, that we're working to. That's the first bucket. The second bucket is where we might be supporting PwC with programs equally where they don't have the skills but we've agreed with the client, it's had judge approval and we're working through a transition plan around that with all the right conflicts-of-interest processes in place. Then the third bucket is where we are just pending panel approval on something for that change of control to occur. However, I should say a majority have moved over to Scyne. These are sort of the edge cases that I'm referring to.

The CHAIR: There's been a lot of talk about the corporate structure of Scyne and how it's different, and I absolutely appreciate that there is a different culture coming out of a partnership than there is a corporate structure. But, unfortunately, we still have scandals with companies. We still have scandals with listed companies. Do you think that there needs to be, for all consulting firms, regardless of their corporate structure, more stringent reporting requirements or something else that actually gives the public that confidence that all of these consulting firms are acting in an ethical way?

RICHARD GWILYM: I think we've very much focused on the things that we need to put in place to rebuild trust. We have very much focused on those aspects, Ms Chair, and we absolutely are committed to doing that. I think it's a very good question to ask, and the conversation about the spirit of the governance requirements as outlined by ASIC is also one that is a very good question to be asking right now.

ADRIAN LOADER: If I was going to add to that—ultimately, all consultants exist at the behest of their clients, and really it's what do the clients want out of their consultants, and what kind of conditions do they put has to be met in terms of any kind of request for response for a tender. And so I think there's a really interesting question about the degree of conflict-free that the New South Wales may put as part of their process or anything like that in order to try to get the behaviours that you're actually asking for.

The Hon. MARK BUTTIGIEG: Just a couple of things related to the questioning from this morning. Has an audit been done on any back-end financial cross-fertilisation of relationships that might still be pre-existing? As a result of the hive-off, I can imagine a situation where you may have people at PwC who have a shareholding or some sort of financial interest in Scyne or Allegra. Has an audit been done on that?

ADRIAN LOADER: Initially there was. We have a number of investors in our fund and one of those investors was a very small investment by a group inside PwC and as part of the process they had to sell their shares or their interests in those funds in order to ensure there was no financial relationship between PwC and Scyne.

The Hon. MARK BUTTIGIEG: No directors have shares or anything like that, as far as you know, from PwC?

ADRIAN LOADER: No. My understanding is there isn't, because they had to sell them all.

The Hon. MARK BUTTIGIEG: The other thing I want to ask about is related to this public sector capacity issue that the Chair broached briefly this morning. I understand there's all the nice language around collaboration and cooperation, but from a government's perspective, if you're concerned about the denuding of the public sector's capacity to do work in-house as a result of over-reliance on consultants over a generation, then it's not the fault of the consulting firm; it's how the market works. Isn't there an inherent conflict tension, irrespective of how good the policies are or the procedures or the collaboration or the language? If I'm doing work for the Government and I'm in a profitable business that's out to make profit, it is not in my interest to actually inculcate the processes, procedures, contacts, networks, know-how, expertise to the government sector to increase their capacity because that will, by definition, reduce my market share?

How do you resolve that tension? If you're people in our shoes who are running the Government on behalf of New South Wales taxpayers and trying to get the most efficient use of that tax dollar, where do you draw the line between, yes, we need the expertise from companies like PwC and Scyne, who are embedded in the private sector, but there has to come a point where we need to draw the line to build our own capacity. Where do you stop that and how do you resolve that tension?

RICHARD GWILYM: We don't believe there is an inherent conflict there. I go back to the comment about not pursuing profit over purpose. Our purpose is to help deliver better, fairer, more equitable communities. That is what we are inherently trying to do. Part of that is really partnering with the public service and, where it is appropriate, we absolutely are committed and want to be working with our clients to build capability. It is something that, as Diane touched on, in a number of our proposals one of the conversations we want to be having with our public sector clients is absolutely how do we help build capability inside the organisation so that you can move forward faster, better, without the continuous support of consultants?

The Hon. MARK BUTTIGIEG: Why would you do that? If I'm in your business—and I'm not blaming you for this; this is the logic of free enterprise and it's part of our free market system and capitalism—I would be saying to myself, don't give away too much because we want a market for the next 20, 30 years. The more we build up the public sector's capacity, the less *raison d'être* we are going to have for our existence. I'm not blaming anyone, I'm just saying it seems to me as though it's trying to put two north poles of a magnet together.

RICHARD GWILYM: I understand the question.

The Hon. Dr SARAH KAINE: Isn't there also a responsibility to shareholders in that vein? How do they feel when you're saying it's for purpose when it's an ASX-listed company and you have a responsibility to your shareholders? While you've got a new structure, there is still tension inherent in that structure, which I think is what Mark is getting to.

RICHARD GWILYM: Yes, so just a couple of points there. We are registered with ASIC. We're not an ASX-listed company. We're a private organisation. The speed and nature of the complexity of challenges that government is trying to solve right now in a number of different areas is only increasing. We can see that every year with the complexity of challenges being faced. We don't believe there is an inherent conflict there. The people that have come across into this business have come into this business because they believe in delivering work for government. They feel a really strong alignment with purpose. They feel a really strong alignment with leaving the organisation that they've worked with better than it was when they came in to work with them. If that means in the future there is less work in a particular area, then so be it. But that is absolutely part of what we want to leave behind in terms of the legacy that we're creating through Scyne Advisory. I understand that may be challenging for people to understand, but that is absolutely part of the business that we're trying to build.

The CHAIR: Can we unpick that, though? Because these are really good points that have been raised by my colleagues. As a corporation, the directors have a responsibility to provide a return to shareholders, right?

I mean, that is what a company is for. In that respect, Scyne is even less able to depart from its profit motive than a partnership would be. It's got different motivators, different pressures. But ultimately, Allegro has got, what, a 75 per cent stake? Presumably Allegro is going to want to exit from this at some point. We've heard today that the instruction is to build the best business that you can. Fundamentally, we are looking at how we reduce government use of consultants, but it's your business model to increase government use of consultants, effectively. With all the nice platitudes and all of the—I get it. From an employee perspective, you can have all the great intentions in the world, but ultimately it's a profit-making vehicle, so profit has to be your primary purpose.

ADRIAN LOADER: I think profit is always the outcome of what you do. This is a vision-based transformation. What we've said to everyone who has been involved in the business is "The major shareholder believes in the vision and we want to create the best possible business we can do." So if we can become the trusted adviser, where we can help governments achieve their outcomes in a better way or not have a model which relies upon land and expand like some of our competitors do, well, then, you know, we think that that is a better model. And normally in economics, if you've got a better model, the better model ends up winning.

Really, that is what we are trying to do here—is we want to have a better model. If you end up using consultants less, well, then, in certain areas we are all for that. Now, I come from a background of—my sister is a public servant. My father was a public servant for a while. My mother worked in the public school system. So I have seen those values and I've also seen the frustrations as well. When we started this, we genuinely said, "How do we actually help create a model which is differential?" Now, where that goes—we're in month two. A lot of that is really up to you because we are the contractor and you are the client, ultimately. But we do come here saying—our first premise is not how do we make money; we honestly believe that the money flows after you create better businesses.

If you look at the track record—I talked about some of those other deals before. If I look at The Ghan and Indian Pacific just as an example, when we started that business, it was half government funded, half tourism funded, and all the government—was a transportation business. The people want to get there as fast as they possibly could and all the people going for tourism wanted to go really slowly because they wanted to get off and have adventures the whole time. Really, what it involved was we had to say, "We want to be a pure business and, if you can basically focus on the customer and focus on doing something great, then we turn into a great experiential tourism business"—which I'm sure you've seen the ads for the whole time. That's now booked out a year ahead. It is something that we really believe in—is that you have a management team, you have people who are capable, you have people below that who are involved in their clients' day to day. How can we actually help them do the best thing that they can possibly do? And then things flow.

The CHAIR: I understand that around 78 staff members were sent back to PwC from Scyne. Can you explain how that happened and why that was?

RICHARD GWILYM: Yes, I can explain that. When we first identified the number of staff which we believed may come across into the organisation, that was at a very early stage in really understanding what the business was going to look like—what the number of partners would be, what the clients would be that would come into the organisation, what the perimeter would be for the work that we would do. So, as we got closer to the point at which the deal was concluding, we knew that we needed a business that looked a little bit differently than some of the assumptions that we had made at the very outset. It's very unfortunate, but we had to have a difficult conversation with those individuals to say, because of the business that we wanted to take forward and the fact that needed to be sustainable, that we were not going to be able to bring some of those individuals across. So the uncomfortable decision was made to leave those people with PwC.

The CHAIR: They've gone back to PwC now? Are they working at PwC?

ADRIAN LOADER: They never came over.

The CHAIR: I understand. We've seen that all of the other consulting firms have hired senior public servants in order to help them win government work. Is that part of your strategy as well?

RICHARD GWILYM: We've put cooling-off periods in place, which we've been quite transparent about, for former public servants and political people. There will be cooling-off periods for senior public servants, which means that they will not be able to work in the area that they have come from in government, to prevent any perceived conflicts of interest moving forward. We haven't hired any since we have been established, but if the event occurs that we do, we will maintain those policies to ensure that people have trust in the process.

The Hon. JACQUI MUNRO: I'm wondering, just picking up on some of the earlier questions, have you been rejected or not approved for any of the panels that you've applied for at this stage?

DIANE RUTTER: I'm happy to answer that. Thank you for the question. At this point, there is one panel that we were temporarily rejected on. We have been working with procurement and have reapplied, so we're pending approval of that imminently. Just to take a step back, the reason is not anything to do with the entity but was quite a technical legal situation where we were using citations or references from previous projects where they were under the PwC partnership. I won't get into the ins and outs, but we've worked that through and we're pending approval of our reapplication.

The Hon. JACQUI MUNRO: That's one out of how many?

DIANE RUTTER: As you know, the major panel in New South Wales is the central panel, which is the PMSS. We've reapplied for I'd say close to 40 of the categories and we've been reapproved on all of them. For those that we have not selected to apply for either we don't feel we've got the capability under Scyne or it's not the type of work we want to do, or will do, under Scyne, such as external audit FSL requirements related pieces of work. Then there are other schemes, if you like, such as the MICTA, the ICTA—all of those that we've applied for and successfully been approved.

The Hon. JACQUI MUNRO: So the ones you didn't apply for that PwC was on the panels for, they were kind of deliberate decisions made?

DIANE RUTTER: That's correct. Because it's the type of work that we will not be doing under Scyne Advisory, so we did not apply for those panel categories, I should say.

RICHARD GWILYM: We understand that the conflict of interest question goes not only to public versus private but also to some of the questions that have existed around financial statement audit and provision of consulting services. So we've not applied for any categories of work, as Diane said, where financial statement audit is required or where an FSL licence is required.

The Hon. JACQUI MUNRO: You've answered this briefly. Just in terms of the New South Wales government contracts that were essentially novated from PwC to Scyne, what were they?

DIANE RUTTER: So there are many of the contracts that are novated to Scyne. I'm happy to provide further detail sort of out of session, if that's helpful. We do have a full list of them, and there are many of them. I would say that the New South Wales e-tendering website might not be the up-to-date reflection because it captures the contract where the contract was signed with, so not necessarily updated yet where it has been change of control to Scyne. Happy to provide the list with you, because there are quite a few.

The Hon. JACQUI MUNRO: That would be helpful. Thank you so much.

DIANE RUTTER: No problem.

The Hon. JACQUI MUNRO: Obviously, you're quite new—months old, really. Would you say that your footprint in New South Wales is fairly substantial already, given your relationship with PwC and that ability to move those contracts over—like, as a proportion of business in the wider consulting world? How are you doing so far?

DIANE RUTTER: Yes, we are very new. Look, what I can say is that—I referenced 100 referees from our clients as part of our panel submissions. To us, that is a really encouraging signal that our clients want to work with us. They support the depth and breadth of capability and the people and the quality of the people that we have. So that's the first one. The second one is we've not had any challenges to date where existing contracts require change of control and have not come across. So that's another data point, tick. In terms of the nature of the work, yes, we are re-establishing ourselves. We understand the New South Wales Government's mandate of reducing consulting spend, and, naturally, we've seen that reduction in work flow through. But we are successfully winning new contracts. Even in the 10 weeks that we've been around, we certainly are having some success. But it will take time, I think, to re-establish our brand out there and remind our clients and the public that we've got that depth and breadth of capability.

The Hon. JACQUI MUNRO: Those 100 clients who are providing references for your panel reapplication process, how are they judging your capabilities, as clients?

DIANE RUTTER: One of the things we discussed when we were reapplying for the panels was that we had to ensure that any reference to a project had to have been delivered by the team that were now in Scyne—so not referencing projects that may have been delivered by PwC employees that remain at PwC. That was really important to us so that the clients could attest to not just the project and whether it was delivered on time and to quality, but the actual capabilities of the people that delivered the work. So those referees relate to the work that they are intimately aware of but also the people that delivered the work.

RICHARD GWILYM: And that requirement to be able to demonstrate capability is consistent on all of the panels that we apply for, as you would expect, in States and Territories around the country. That is a stringent process, and we thank you, as Diana said, for the work that the procurement team have done to really test out that level of capability that we're bringing across into Scyne.

The Hon. Dr SARAH KAINE: I had a couple of questions about your scope, I guess. In the sort of "who we serve" part of your little prospectus, there's the circle with the segments in it. Our focus has very much been on—obviously, because of who we are—the New South Wales Government and public sector. You've also got there not-for-profit sector, and you've also got the public tertiary sector. I've got a few questions about that. Before I get to those, could I ask you why the tertiary education universities have been included? Well, it's not just universities, is it? Public sector education has been included on that.

RICHARD GWILYM: Look, it has been included. When we think about the broader public purpose and if we go back to the vision around being able to deliver a fairer, more equitable, prosperous Australia, education plays such an important part in that role. By virtue of that, it's an area that we think we continue to have great capability that can partner with organisations in the tertiary sector for that benefit. We don't see a conflict there, and we will declare perceived conflicts of interest very openly with clients if anything arises—if that is the point that you're trying to get at there.

The Hon. Dr SARAH KAINE: One of my concerns is that universities in particular do operate on an extremely different business model to, say, your departments and other areas that you might be engaged with, particularly in New South Wales. They are heavily corporatised. They are businesses run like businesses, despite having public funding, so there are likely to be more pressures and tensions with regard to their major funder, which is the Government, and also the types of regulation that enable them to make money through other activities. They are a different entity who mirror much more closely the private sector and the pressures that they face. For me, that raises a question as to whether they are an appropriate inclusion, given that you are looking to avoid those types of tensions.

RICHARD GWILYM: Yes, that's a very good question to ask. We don't believe it does. In conversation with our government clients and with those organisations, we absolutely believe it is a tension that can be managed. If there are perceived conflicts of interest, they will be declared, and we will decline work where we do not feel it is appropriate to be doing that if such conflict appears to have arisen.

The Hon. Dr SARAH KAINE: So it's the same type of thing: We rely on you guys to manage that conflict even though there is potentially an increased risk in that sector because of their business model.

RICHARD GWILYM: Conflicts are going to arise in the work that we do, and there are going to be conflicts where there are Federal policy decisions that impact on State-based work that is undertaken. Our promise is that we will be transparent about where we are working and what we are doing, and we will have those discussions really openly and transparently. I understand that that raises questions, but it's one that we are going to have to work through really carefully, openly and transparently. If there is an occasion where, through those discussions, we believe that conflict is real, then we will opt out of those types of work.

The Hon. Dr SARAH KAINE: I ask a question on a slightly different issue. Are you or will you be using any form of artificial intelligence internally to either consolidate and catalogue any information or put together tenders or advice?

RICHARD GWILYM: We are not at the moment. I honestly need to think through the implications of that before we make any decisions in that regard. Artificial intelligence is something that is moving at such a pace. Before we go down the path of embracing artificial intelligence within our business, we need to think through the ethical issues that surround that and make sure that relevant controls are put in place. I don't have a specific answer to that question right now. As Diane has said, we are 10 weeks old. We are taking one step at a time. But, absolutely, there are a lot of questions about AI—particularly generative AI—at the moment and making sure that there are ethical controls that are put in place around that to make sure the data is used responsibly and appropriately as that is being considered.

The Hon. Dr SARAH KAINE: So you don't have any software or anything that enables you to scrape data from various places and then consolidate it in another place?

RICHARD GWILYM: Not that I can think of. I'm trying to cast my mind back to the technology platforms that we've got. I don't believe so. We are using artificial intelligence in conjunction with our clients on specific projects where that has been requested. We have data analytics tools that are used by our client-facing teams, as you would imagine. We work really collaboratively with our clients on that. We are not using it for the purposes that I think you're outlining.

The Hon. Dr SARAH KAINE: So you don't use it internally? You don't have a data analytics internal team that collates your information?

RICHARD GWILYM: For the purposes of reporting on the performance of our business, we have a data analytics team, absolutely. That is using standard Microsoft BI tools that look at the performance of the organisation, but we are not using generative AI for the purposes that I think you are getting at.

The Hon. Dr SARAH KAINE: So no content analysis of project reports et cetera?

DIANE RUTTER: If we can take that on notice, just so that we can talk to our internal data analytics team? Because potentially, but we'd have to take that on notice.

The Hon. Dr SARAH KAINE: That would be really helpful. Thank you.

The CHAIR: Can I ask some questions just around donations. I understand that you made the decision that Scyne would not give political donations. Why is that?

ADRIAN LOADER: Well, I think it's a very clear statement to remove conflict of interest.

The CHAIR: Extrapolating from that, would you see a political donation from a consulting firm as creating a conflict of interest with government?

ADRIAN LOADER: I think people can form their own views there. I can only talk about what Scyne's policies are.

The CHAIR: Does Allegro give political donations?

ADRIAN LOADER: No, I don't believe we do.

The CHAIR: What do you think of the other consulting firms continuing to give those donations? I know we've just recently seen that in the 2022-23 financial year PwC, for example, increased its donations by 50 per cent as it was being scrutinised for that scandal. Why do you think that they are giving so much money in political donations?

ADRIAN LOADER: We don't have a view of what PwC does or doesn't do. I think you should ask them.

The CHAIR: Very diplomatic. So we have the 75 per cent owned by Allegro. The other 25 per cent—is there some equity stake from the signed executives? What is happening there?

ADRIAN LOADER: It is currently being set up. You've probably got it. About 90 per cent of the partners have got—so all of the partners and some directors have got an equity interest, and then also some of them are in the process of buying in to some shares as well. Then, additionally, what will happen is that the directors will have a right to buy some shares as well.

The CHAIR: Is the intention that as the entity sort of matures it will eventually reduce that total Allegro stake, or will it maintain the 75 per cent?

ADRIAN LOADER: No decision has been made at this point in time.

The CHAIR: Thank you. Does anyone else have any questions? We might be giving you an early mark. Is there anything else that you wanted to add that you think hasn't been covered at this point?

The Hon. MARK BUTTIGIEG: I would like to flesh out the answer on the inherent conflict of interest. Basically, the business model is this, as I see it: a bespoke specialist advisory service to government to help them build their capacity, and if that means a reduced market share, we will be better than anyone else and will benefit as a result. That's pretty much your business model, isn't it?

ADRIAN LOADER: Trusted adviser team.

The Hon. MARK BUTTIGIEG: Okay.

The CHAIR: Thank you very much for your frank and coherent answers to our questions. I hope it has not been painful. I've certainly found it very interesting and useful for this Committee. The secretariat will contact you in relation to any questions that you took on notice, and also there may be some supplementary questions, including some from—unless you wanted to check now that they've been taken on notice, the ones you were asking?

The Hon. JACQUI MUNRO: I understood that they were taken on notice.

DIANE RUTTER: Yes, the details on the panels with the change of control.

RICHARD GWILYM: The details on the panels and the use of generative AI—we will respond on both those points.

The CHAIR: Thank you very much.

(The witnesses withdrew.)

(Short adjournment)

Mrs CATHERINE FRIDAY, Government Health and Life Sciences Leader, EY Oceania, sworn and examined
Mrs LEIGH WALKER, Risk Management and Independence Leader, EY Oceania, affirmed and examined
Mr MARK NIXON, Government and Public Sector Leader for Consulting, EY Oceania, sworn and examined
Mr CHRIS GEORGE, Public Policy Leader and Assurance Professional Practice Director, EY Oceania, affirmed and examined

The CHAIR: Welcome. Would you like to begin by making a short opening statement?

CATHERINE FRIDAY: Thank you so much, Chair. We would, and thank you also to Committee members for the opportunity to appear today. As we shared in our submission to this inquiry, we believe this is an important opportunity to examine the safeguards and mechanisms in place to protect the interests of the New South Wales Government when engaging with external service providers, including consultants. However, before we get underway, I wanted to touch on our broader work with the New South Wales Government, EY's approach to managing conflicts of interest, our recommendations to this Committee, and the recently completed independent review of workplace culture by Elizabeth Broderick and Co. It is important that we recognise and uphold the high standard that you, our regulators, our clients and the public expect of us.

I would like to start by saying how committed we are to and, I should also say as well, incredibly proud of the work that we do for the New South Wales Government and the capabilities of our talented professionals, who are improving the outcomes for our New South Wales government clients every day. As this inquiry has heard, our teams are able to share our global expertise in areas such as health, treasury and regional communities, improving the experience and lives of citizens across New South Wales. In delivering solutions to these challenges, we draw on the strength of our multidisciplinary firm across audit, consulting, strategy and transactions, and tax. Labour hire is not part of our business model, nor has it ever been. I would close on this topic by saying that the private sector experience that we bring to bear on the challenges New South Wales faces is valued by our public sector clients. Effectively managing the conflicts of interest that can arise when working for public sector and private sector or working for two government departments is essential to upholding the trust placed in us by the public sector.

Speaking of high standards, at EY this high standard, when it comes to managing conflicts, is not just a moral obligation; it is also a regulatory responsibility. All our partners are members of CA ANZ and, through this, we are all bound to the high standards of the APES 110 Code of Ethics for Professional Accountants. As we outlined in our submission, EY's comprehensive policies, processes and procedures are designed to uphold this high standard for the delivery of impartial advice. To further prevent conflicts of interest from arising in our engagements, no EY partners are allowed to hold external director roles in the for-profit sector. As a firm, EY does not make investments in other businesses, we stopped our partner pension scheme almost 25 years ago, and our independence framework tracks all outside roles and investments held by our partners.

Whilst we are a well-regulated profession, we welcome any additional oversight that improves public trust and confidence in multidisciplinary professional services firms, and we have shared our thoughts on this in our submission to the Federal Parliamentary Joint Committee on Corporations and Financial Services. To this end, our strong view is that this reform and other reforms such as items this Committee could consider should be prepared in a thoughtful, considered and consultative way, with a clear focus on the problem looking to be solved. We understand this Committee's interest in actionable solutions that improve the management of conflicts of interest in New South Wales agency procurement and have included five key recommendations in our submission to this inquiry that could potentially assist the Committee.

Firstly, we believe that the use of whole-of-government panels when they exist should be mandated across the New South Wales Government procurement to drive down procurement and delivery costs and ensure that all learnings or improvements to panels are shared across government. Secondly, implement a centralised data collection platform that reports publicly on the outcome of all tendering processes in New South Wales, including contract extensions, which would provide a collective view of State expenditure on consultants. Thirdly, require the publication of short-term strategic procurement outlooks and annual procurement plans for New South Wales Government agencies, which would mitigate risks when entities use preferred suppliers or provide significant extensions and also provide greater confidence that consultants are being used appropriately.

Fourthly, developing a consistent set of codes to identify the types of services provided by consultants and require these to be used in reporting to allow easy reporting and analysis on the types of work undertaken. Fifthly, require a public disclosure of the management of conflicts of interest by New South Wales Government agencies, ensuring that entities outside of the New South Wales Government agency and consultant are aware of how conflicts are being managed. We hope that these recommendations are of assistance to the Committee.

In July 2023 we released the independent report into our workplace culture. Over 4,500 current and former employees across Australia and New Zealand participated in the review, providing us with valuable insights into what is working well, areas for improvement and actions we can take to be better. The report findings highlighted that a significant majority of our people have a positive experience at EY; however, it also told us that this is sadly not the case for everyone. Despite initiatives to advance a safe, inclusive and respectful culture, in the last five years 15 per cent of people have experienced bullying, 10 per cent indicated they had experienced sexual harassment and 8 per cent of EY people sadly have experienced racism. Long working hours and overwork are also a critical issue, having a negative impact on individual wellbeing, team cohesion and retention, with 46 per cent reporting that their health has been negatively affected as a result.

That said, there is a relatively high level of confidence that we can address many of the issues explored in the review. Three in four of our people believe the organisation will make meaningful change in relation to the issues raised in the review. However, just 31 per cent of people are confident we can change a culture of long work hours and overwork. We recognise that in these areas we have fallen short of the high standard we set for ourselves and the standards that our people at EY have a right to expect and we have committed to change. The report outlines 27 recommendations and five experimental pilots to help us sustain meaningful improvements to our workplace culture and to positively promote the wellbeing of all EY people. More than half of those recommendations are already in process.

The CHAIR: Apologies, Mrs Friday, is there much more?

CATHERINE FRIDAY: No. A couple of sentences, Chair. While the culture of work is very much a long-term initiative for EY, we are happy to discuss the details with the Committee today. We committed to being a leading provider in professional services and there is work to do to get there. Thank you again for the opportunity to appear today and we look forward to your questions.

The CHAIR: Thank you. Sorry for interrupting you.

CATHERINE FRIDAY: That's quite alright.

The CHAIR: Sometimes those statements get really long, I just wanted to check. Just before we get started on the questions, originally we had Mr George attending. I understand Mr George is here today. Is that correct?

LEIGH WALKER: He is. Chris was going to appear on my behalf and because conflicts of interest were going to be what we think is a topic of discussion, I made myself available to appear.

The CHAIR: I understand. I am grateful to have you here, Mrs Walker, but I understand that Mr George is the person who's actually doing the government work. Is that correct?

LEIGH WALKER: Chris is the head of our public policy and he is an audit partner and he is the Asia Pacific—trying to use non-EY terms here—but he is the head of the technical audit for public practice so he would provide audit services potentially to government clients, but not government consulting.

The CHAIR: Because the email we received from your strategic communications director was that Mr George is no longer available. That's why I'm asking, given that he is in the room. If he would like to come and sit at the witness table there, we could get a sign set up.

CATHERINE FRIDAY: Absolutely, yes.

The CHAIR: That would be really useful, so that we can have the benefit of all of your expertise. Perhaps I will start us off then. Firstly, thank you very much for your time and for giving us the benefit of today's session. When we had the PwC scandal, which sort of kicked off this round of inquiries into the consulting industry, we ended up with the government work from PwC being hived off into a different entity, and we've just heard from representatives from Scyne. That was taken by many commentators and observers like myself to be an indication that it's simply not possible to ethically do work for both government and the private sector. Why is it that EY thinks it's different to PwC in this respect? How are you able to conduct both work for government and the corporate sector in an ethical manner?

CATHERINE FRIDAY: Thank you for the question, Chair. I might invite Leigh to comment broadly on how we manage conflict of interest in a minute. But specifically on the question of hiving off a part of a practice that deals with any single sector, be it government or any other sector, we don't believe that that actually negates the risk of there being conflict of interest within that particular single sector practice. Because wherever a firm is invited to provide services—it could be within one agency or multiple services to multiple agencies or businesses within a single sector—there is the potential for actual or perceived conflict of interest to arise. In a hypothetical example in a government agency, for instance, if a single sector firm was delivering internal audit services, there

would be a conflict of interest about that same firm potentially providing some other services to that agency as well. Simply by virtue of being a government-only practice, that doesn't actually solve for the conflict of interest issue.

More broadly within EY, we know that our government clients very much value and appreciate the fact that we are able to bring to them insights from across other sectors. It might be in areas around emerging tech or new fields of work that are relevant in this instance to government and they want to learn what is happening and what is considered better practice across other industries globally. The global point for us is also a really valuable and interesting one, inasmuch as many of our government clients value the fact that we are a large multidisciplinary global firm and are able to bring to bear global best practices from governments around the world to the work of supporting our Australian government clients as well.

The CHAIR: Looking at that first bit of your answer then, obviously having a government-only or government-work-only entity is not going to remove all actual or potential conflicts of interest.

CATHERINE FRIDAY: Exactly.

The CHAIR: But when we started this process, we had the benefit of hearing from representatives from ICAC. They were talking about the obligation not just to avoid real conflicts of interest and to avoid, particularly when it comes to government work, the perception of a conflict of interest because of the flow-on effect that that has on people's belief in democracy and our democratic systems—but also that there were just certain situations that were so much more risky or created a higher risk of conflict of interest that it was better to exclude yourself from those situations altogether. Listening to Scyne talk this morning, it does seem like that big potential for a conflict of interest that occurs when you're doing both government and commercial work has been avoided by having that off into a separate entity. Would you agree with that?

CATHERINE FRIDAY: I think it's interesting to reflect on the statements that Scyne gave this morning as, as we heard them, they also considered the potential for conflict of interest within their practice through, for instance, work done in the higher education sector and the need to manage those on an ongoing basis. So, no, I don't think the fact of having—

The CHAIR: Sorry—but, again, you're focusing on the conflicts of interest that still remain.

CATHERINE FRIDAY: Yes.

The CHAIR: But if we start with a larger pool of conflicts of interest, which occur because of both doing corporate and government work, the fact that you're then still left with some conflict of interest doesn't address what I'm asking you, which is basically everyone else other than PwC still has that broader environment of conflict of interest.

CATHERINE FRIDAY: Which I think then comes down to the culture, processes and practices that you have within your organisation for managing those conflicts of interest, be they real or perceived. And perhaps on that point I can invite Leigh to share some commentary as to how we—

The CHAIR: Sorry, I will come back to you in a moment. This idea that PwC was somehow an anomaly—like, we saw that tax scandal. I think it kicked off a new awareness and a new desire to really understand consulting firms, how they're regulated et cetera. But anyone who's worked in a large organisation understands that cultural factors either facilitate more easily that kind of event, or the processes and culture act to stymie that sort of behaviour. We now know it was an ex-EY partner who was being sued by the commissioner of taxation in relation to yet another tax scandal. I understand that a deal has now been struck. I think that that case is no longer ongoing because there's been a deal struck. But it has been reported that that EY partner, when they were at EY, was working with a number of other people in relation to what I'll call "dodgy" work, for lack of a better word. It's clear that these issues exist at EY as well, so why is EY not taking steps to reduce that sort of behaviour?

CATHERINE FRIDAY: I'll invite Leigh to respond to that.

LEIGH WALKER: If I can split my answer in a couple of ways. And, apologies, my voice is going a little bit. The first element of the questions you're asking was around PwC and that reflecting the whole of the industry. One of the things that I reflect on is PwC obviously engaged Ziggy Switkowski to run a review of their governance and their structures. We, like every other professional services firm in the country, looked at the Switkowski recommendations and looked to see how they would apply to EY. We looked to see if we could learn from what PwC learned through that process. What I will say is the vast majority of those recommendations would not apply to EY because we already had those structures in place. I'll use a really simple one—I think it was talked about this morning—the appointment of the CEO, talked about as PwC that it was a vote by the partners, so it becomes what appears to be a popularity contest about who is your CEO. That is not at all the process we go through at EY. We have a sounding process.

The CHAIR: Sorry, can I just stop you there, because one of the criticisms that I have of that review that was done for PwC is that it only looked at what the current processes and procedures were. It didn't actually investigate how that tax scandal happened in the first place. So you also have a tax scandal. A lot less—and there have been others—has been made of this because I think you're not the first comer. But what have you been doing now to investigate the cultural rot that led to that scandal?

LEIGH WALKER: I would clarify a couple of things. That legal case is still ongoing. It is subject to suppression order, so we are a little bit limited on what we can say because of that suppression order, which covers the identity of the former partner, clients and anybody else involved in that particular scope of work. However, what I can say, and what we made clear at the time, is we have undertaken a number of investigations and identified that that partner did act alone. That partner did not follow EY's policies and procedures.

The CHAIR: When you say "act alone", they were still part of a team, though, weren't they? There were people working for them, who were involved in the work of setting up the structures and doing the work under that partner. Before, you talked about the review that PwC did and how those things can't happen at EY because you've already done those recommendations. But, despite you having a different structure and the way that you appoint and all of that, you still had this scandal. How does the public get comfortable that you are any different to PwC?

LEIGH WALKER: To look at the commissioner's case, the commissioner's case is against that individual partner. The commissioner's case does not make any suggestion or allegations of wrongdoing against EY or any other EY partners. It is a case against that individual former partner.

The CHAIR: Yes, who is a former partner but did that activity in question while at your firm. Was that partner let go by EY for misconduct?

LEIGH WALKER: Yes.

The Hon. Dr SARAH KAINE: Thank you for being here and for your answers so far. I don't profess to be an expert on EY's activities, but a quick and dirty google search suggests that the tax example is not the only issue of conflict of interest between—and, in fact, between clients. We seem to have some very high-profile cases. The one which it would appear that you contest is the one that has recently come out about the Peabody coal in the Federal inquiry, and then there was the gas statement and working for Santos and the Government at the same time. I didn't look too hard. It doesn't take much to find some. As the Chair said, I think you're probably lucky in your timing on some of these that you weren't first cab off the rank.

I guess what I'm interested in knowing is, given all of this and given you're fairly vehemently suggesting that you are different to PwC, what is it that you do differently when you find out about these? I note that you say in 2022 you identified 55 breaches of your policies and seven breaches of your values. Can you tell us the numbers of each type of disciplinary action you've taken and how you determine what is the most appropriate and how were these breaches found? Was there a whistleblower? Did an external person identify them? How are you doing that? I'd suggest that you've probably still got some holes in that process, given what I could find, but what is that process like?

CATHERINE FRIDAY: Thank you for the question. Again, I might invite Leigh to respond.

LEIGH WALKER: Again, there are layers to the question. In terms of conflicts of interest, we have a global process that we follow that's set, based on the International Ethics Standards Board for Accountants standard of definition of conflicts of interest.

The Hon. Dr SARAH KAINE: Does that apply to non-accountants as well?

LEIGH WALKER: This applies in Australia to members of CA ANZ and anyone else who is a professional accountant.

The Hon. Dr SARAH KAINE: But in your organisation, your consultants would not be accountants, would they?

LEIGH WALKER: They would still be required to comply with these—

The Hon. Dr SARAH KAINE: With that code?

CATHERINE FRIDAY: Yes.

LEIGH WALKER: —because all our partners are members of CA ANZ, and our whole organisation applies these rules because they are, quite literally, the global standard for how to manage conflicts of interest. So those examples that you talked about were not conflicts of interest, in accordance with the code. There is misinformation, I would say, in the press around the nature of the work we were doing on those particular matters.

The Hon. Dr SARAH KAINE: So you weren't working for the State Government on the gas statement while you were working for Santos? You weren't doing that?

LEIGH WALKER: The work we were doing on the *Future of Gas Statement* was very limited in scope. We did some economic modelling on scenarios set by the Government. They said, "Can you do the economic modelling on these scenarios?" We did the economic modelling and then walked away. So we didn't make recommendations; we didn't write the *Future of Gas Statement*. We did that economic modelling, based on their scenarios, which I understand were set by another party.

The CHAIR: Can we delve into that?

LEIGH WALKER: Sure.

The CHAIR: We have EY working on whatever you think the scope of work was. I'm not really sure it's that relevant, but working in relation to the formulation of policy by government. So you've provided information as part of that process to government. You've been employed to do that, with government. The end result of that is that Santos should be enabled and encouraged to continue to destroy the Narrabri and to expand its operations, and Santos also happens to be a client of yours on the audit side of your business. How does that pass the perceived conflict of interest test? If you are applying a standard where it doesn't, I would say that standard is out of line with the public's expectations.

LEIGH WALKER: Chair, you mentioned that the scope of work is not relevant. The scope of work is fundamentally relevant and is the key determinant of whether something is a conflict of interest or not.

The CHAIR: So you did that in a vacuum, without knowing what it was applying to?

LEIGH WALKER: We looked at the scope of the work that we were doing and considered any third parties involved in the engagement.

The CHAIR: So you were doing modelling?

LEIGH WALKER: We did economic modelling.

The CHAIR: Can you give us more detail about what that economic modelling is?

LEIGH WALKER: It's outside the realm of my expertise.

The CHAIR: Perhaps Mr George can help with that, because I think it's really relevant. If you know that you are doing economic modelling—anyone who knows anything about economic modelling knows that it's not putting a couple of things into a computer system and you get the same result no matter who you are. That's why you get consultants to do economic modelling in the first place. Those numbers can be massaged.

LEIGH WALKER: I want to be clear on the scope of the work that we did. We were given the scenarios that the Government wanted in the economic modelling. We weren't involved in changing the scenarios or recommending changes to the scenarios that would benefit or not benefit anybody else who operates in that industry. The work we did was very limited, based on that.

The Hon. Dr SARAH KAINE: But you don't do a commonsense, person-in-the-street kind of look at this. You go by the book that says, "That's okay, so we'll do it. Perceptions don't really bother us." You are in a profession that is at the moment maybe in line with politicians for public credibility, and you don't think, "This is not going to be a good look when it comes out that we are working for the Government and for Santos." That is not a consideration, is what I am hearing. It's just, "If we've got the book, and the book says we can do it, then we are good to go."

LEIGH WALKER: The book also has a third party test. It talks about whether it's a conflict of interest, whether it's independence with regard to the audit—

The Hon. Dr SARAH KAINE: But the man or the person in the street doesn't know about the book. They just know what it looks like.

The Hon. MARK BUTTIGIEG: Can I ask you, on that, does your conflict of interest policy specifically include a potential breach if it's a perceived conflict of interest? Does your policy deal with perceived conflicts of interest?

LEIGH WALKER: Where we have a perceived conflict of interest, we would then dig deeper to understand what is underlying that perception.

The Hon. MARK BUTTIGIEG: To be clear, your answer, on evidence, is that your policy does address perceived conflicts of interest. So there must have been at some point in time a decision made that said that this

is not a perceived conflict of interest, or, if it was, presumably there were mitigating measures put in place to address that perceived conflict of interest. Which one is it?

LEIGH WALKER: We looked at, in this case, the underlying subject matter. The underlying subject matter in the economic modelling was, again, like I said, set by the Government. It did not include any information, as an example, obtained from Santos. It did not include information or a requirement for us to contact Santos to do that economic modelling. That is where we would identify that there is a conflict of interest with our audit relationship.

The Hon. MARK BUTTIGIEG: To summarise that, because, in your mind, there was no conflict materially, because the nature of the two functionalities were separate—in other words, you've got the audit process for Santos, which is not related to the modelling, so therefore there is no advantage to be had—it never crossed your mind that, as my colleague pointed out, surely it's a perceived conflict of interest to a layman who doesn't understand it. That's the whole point of having a perceived conflict of interest, right?

LEIGH WALKER: Again, there was no overlap of subject matter, and our standard talks about a third party test.

The Hon. MARK BUTTIGIEG: But that's immaterial to a perceived conflict of interest.

The CHAIR: Can we come back, though, to the actual conflict of interest? I don't think we have unpicked that yet.

LEIGH WALKER: There is no conflict of interest.

The CHAIR: Can we go back to the four scenarios that you were given to model? The idea that the output you then presented back to the Government was devoid of any decision-making from the individuals involved—

LEIGH WALKER: Yes, absolutely.

The CHAIR: No decisions—you didn't have to make any decisions on any of the ways in which you modelled what was presumably a cost-benefit analysis? What was it?

The Hon. Dr SARAH KAINE: You even decide what software you use. Everything is a decision.

The CHAIR: Everything. Everything that becomes a cost or a benefit or how long term you look et cetera. Not all of those things are put in by government in their instructions.

LEIGH WALKER: The scenarios for this economic modelling—it wasn't cost-benefit analysis; it was economic modelling—were set by government.

The CHAIR: So EY just acted like a computer?

LEIGH WALKER: A very well-informed and professionally applied—

The CHAIR: And what was that well-informed and professional experience adding?

LEIGH WALKER: Economic experience.

The CHAIR: Right. As we know, economics is not a science; it is more an art form.

LEIGH WALKER: Yes.

The CHAIR: Presumably the people who are involved at EY were making decisions on exactly what to do for that modelling. Are you saying that there was no opportunity and no decisions made that could potentially benefit Santos more than another way of going?

LEIGH WALKER: Yes, absolutely. We provide objective economic modelling based on the inputs—

The Hon. Dr SARAH KAINE: There is no such thing.

The CHAIR: There is no such thing as objective economic modelling. Do you do the economic modelling yourself? Have you done economic modelling?

LEIGH WALKER: No, I do not.

The CHAIR: Can I ask someone who does economic modelling? Mr George, are you familiar with this?

CHRIS GEORGE: I don't do economic modelling.

The CHAIR: Right. Who does economic modelling? Because anyone—

CATHERINE FRIDAY: Chair, perhaps if there is a specific question about economic modelling we can take that on notice and come back to you.

The CHAIR: Thank you. If you could come back to me—it is going to be hard because I really need to understand from somebody who was working on this project how they could think that economic modelling did not involve any policy or decision-making at any point.

LEIGH WALKER: That was the role of government in receiving the services that we did.

The CHAIR: That's not how economic modelling works, with respect.

The Hon. Dr SARAH KAINÉ: No, someone makes decisions about the model.

MARK NIXON: But it was an options analysis for the department who ultimately makes the decision.

The CHAIR: That's fine, but the analysis input that EY gave would have been made on a series of decisions that were based on EY's expertise and knowledge. That's why the Government would have gone to EY. Part of that would have involved decisions that, like it or not, would have had a positive or negative impact on Santos. I'm not saying that they were made—no-one is accusing EY of making decisions in that modelling process that did favour an outcome for Santos, but—

CHRIS GEORGE: Correct.

The CHAIR: —they clearly could have. On that basis, is there not a perceived conflict of interest in both acting for Santos and also doing modelling that involves inputs from EY that could favour Santos or not favour Santos? I think the average person on the street would say, "Of course that's a perceived conflict of interest."

LEIGH WALKER: I was just going to ask Chris to add his expertise here on what is an audit and what is our role as auditors of Santos, and how we do that work.

The CHAIR: Sorry, before you do, because I don't actually think that's the relevant factor here—

LEIGH WALKER: I think it is entirely relevant because the scope of work is relevant to assessing conflicts.

The CHAIR: Perhaps the way the conflicts of interest are being assessed is not robust, because there is an income stream for EY based on its audit work. It has, wouldn't you say, an interest in keeping its audit clients happy? Whether or not you want to call it an actual or perceived conflict of interest, if you have part of your business that has a long-term client, how on earth can the other part of the business act in a way that damages?

LEIGH WALKER: I think this is where it is really important that Chris can outline what is the purpose of the audit.

The Hon. Dr SARAH KAINÉ: Could I just jump in to clarify something? You mentioned that the media reporting might not be correct, so I want to, while we're in this space, check. Because there was reporting that there were services other than just auditing. If there are other services you have provided to Santos, I'm wondering if we could we know about those as well. I'm just checking because you did mention it, and I want to make sure that we can get that.

LEIGH WALKER: All that information is publicly available. It gets disclosed by Santos.

The Hon. Dr SARAH KAINÉ: If you could you provide that to us here, because you're here and Santos isn't, that would also be useful.

LEIGH WALKER: So, Chris, do you want to outline the purpose of an audit?

CHRIS GEORGE: Yes, I think the important—

The Hon. Dr SARAH KAINÉ: And also what else you're doing.

The CHAIR: With respect, we understand the purpose of an audit.

CHRIS GEORGE: No, but I think the important point to note—

The Hon. SCOTT FARLOW: If we can just go back to Ms Walker's answer there as well, will you take it on notice, then, in terms of the other work that is being undertaken?

LEIGH WALKER: Yes, absolutely.

The Hon. SCOTT FARLOW: You will? Just to clarify.

LEIGH WALKER: Yes.

The Hon. SCOTT FARLOW: Thank you.

The CHAIR: Go ahead, Mr George.

CHRIS GEORGE: I think what's important to note is that as an auditor we are independent of our audit clients. We don't advocate for our clients. We can't advocate for our clients. The Corporations Act and the code of conduct or the code of ethics that Ms Walker referred to do not allow us to advocate for our clients. We are independent of our clients.

The CHAIR: That's what the rules say, but then in practice there are factors.

CHRIS GEORGE: No, in practice we do not advocate for audit clients. We are prohibited from doing that.

LEIGH WALKER: One thing I would also add on that: Audit is heavily regulated, as you can imagine. Our audit engagements can be subject to inspection by ASIC, and ASIC would also look at how we apply the code to the work that we do.

The CHAIR: No-one is saying that the audit work is in any way not correct.

LEIGH WALKER: If you allow me to finish, I would just explain that those standards that we apply to the audit also apply across our whole organisation. So when ASIC come in and look at the conduct of our engagement teams and the rules and policies they apply—we don't have separate rules and policies for our audit folk from our consulting folk. The same high level of standard of professional behaviour, professional conduct that you expect in an audit applies across our entire firm. When—

The Hon. Dr SARAH KAINE: But there isn't any external check on that, is there? It's not a question unique to you. We've asked every consultant group that's come in. That might be well and good—you have an internal expectation that the standards apply across, not just your accountants—but there isn't an external verification of that. You guys—I used the term this morning—check your own homework to make sure that your consultants abide by the—

LEIGH WALKER: Not at all. We actually have an external audit done of our quality management system. It's an ISO-accredited audit. Every year we have an audit team come in and look at our processes for that consistency across the firm, and they absolutely look at what are the policies and procedures, and do they apply differently between consulting, between audit. We're delighted that we've had that accreditation since—I want to say 1989, but a good length of time. And we've got that external audit opinion that says we comply with that quality management standard.

The Hon. Dr SARAH KAINE: That's really interesting. Could you provide some information about that standard? That would be—

LEIGH WALKER: Yes, absolutely. We've got a certificate from the auditor that says that we've met those standards across our organisation. Happy to do that.

The Hon. Dr SARAH KAINE: That would be helpful. It would be nice to actually understand a bit more what they're actually looking at.

The CHAIR: When did ASIC last do a review of EY?

CHRIS GEORGE: ASIC review EY continually, so we're subject to inspections all the time. We have one going on at the moment. We're continually under ASIC's inspection.

The CHAIR: Just on that Santos issue, I understand that you don't think it was a conflict of interest. That's been made clear. However, the client does think it was a conflict of interest. Courtney Houssos, the finance Minister, who's the relevant Minister now for that work, referred to the issue as undermining confidence in the development of public policy and flagged that she would be looking into this further. Given that and given the discussion in the media and the discussion we're having here, do you think that your conflict of interest rules are robust and being applied correctly?

LEIGH WALKER: Yes, we do, and we decline work on a fairly regular basis because of the conflict of interest processes we apply.

The CHAIR: Despite the views of your client?

LEIGH WALKER: Yes.

The Hon. SCOTT FARLOW: Just a follow-up to that as well, in terms of that have you had any further inquiries from the Minister or from the department with respect to that work?

LEIGH WALKER: Not that I'm aware of, but I'll take that on notice.

The CHAIR: Despite that happening, coming to light in August and the media talking about it in August, EY then takes on work for the Australian Energy Producers in October last year, to publish a report on the future of the gas industry for them, and wrote a submission outlining concerns about the Government's gas supply strategy on behalf of the AEP but then, we learn, at the same time was contracted by the department of climate change et cetera to provide analysis on emissions outputs for oil and gas facilities. This was then highlighted as yet another issue that EY did not think was a conflict of interest but the public clearly did. Are you still not convinced that there's a problem here between the way that EY is seeing things and the way that the public is seeing things?

CATHERINE FRIDAY: No, Chair, we're not. Actually, if I can just go back to the question that you asked about EY's engagement with the Minister. I have, in fact, met with the Minister to discuss the matter and to listen to her concerns firsthand. In fact, it's a meeting that Chris and I took together to actually listen to the concerns firsthand and share the process that we went through to accept the engagement. We are very much keen to disclose that and put that on the record as part of the discussions that we're having today.

The CHAIR: Did you then make changes on the basis of that so we didn't end up with this kind of concern being raised in the future? It makes the Government look bad. It makes our democratic institutions look bad.

CATHERINE FRIDAY: We absolutely accept that, Chair. In our discussions with the Minister, we were very clear that we understood the concerns about the perception of conflict of interest. We were also clear about our ongoing reviews of our own processes as well, to make sure that we continue to meet not just formal standards—the rule of law, if you like—but also the spirit of the intention of those disclosures as well, recognising, as you say, that public sentiment is changing and we need to be sensitive to that as part of the work that we do.

The Hon. Dr SARAH KAINE: You changed your policy following that, given that you reflected on it?

CATHERINE FRIDAY: No, we haven't changed our policy but we continually reflect on our policies. They're not just set in stone indefinitely. We are constantly going through a process of making sure that our policies are not just correct from a legal and regulatory perspective but they also uphold the culture and values of the firm and the clients that we serve as well.

The CHAIR: I put it to you that EY has become the go-to firm for the oil and gas lobby and the oil and gas companies and that that presents a systemic perceived conflict of interest when it comes to also then doing anything connected with government work that would impact the fossil fuel industry. What do you say to that?

CATHERINE FRIDAY: I would refute the suggestion that we've become the go-to firm. I think the oil and gas sector globally engages with many, many providers. We happen to be one of them. We do believe, however, that the business community and ourselves as part of that have a very important role to play in working with energy companies globally as they transition to a net zero economy. Obviously, that is something that is of deep concern and interest to all of us as citizens. We happen to have excellent climate change and sustainability teams within the firm globally, and when energy clients come to us seeking our support and advice it behoves us to provide that.

The Hon. Dr SARAH KAINE: Could I ask perhaps something on notice again—and I don't know if there are ways that we can do this; it is a concern—but with the examples we've given and you have talked about how you determine conflict of interest, you would have a formal process of assessment.

CATHERINE FRIDAY: Absolutely.

The Hon. Dr SARAH KAINE: I wonder if we could see that, if you could provide on notice to us the ways in which you came up with or decided that there was no conflict or that it was managed in a particular way? If you could provide that on notice?

LEIGH WALKER: Our submission outlines our conflict management process.

The Hon. Dr SARAH KAINE: No, not the process. I'm not interested in the process. I'm interested in those actual examples. How did you decide on those examples?

LEIGH WALKER: We will have to take that on notice because it is Federal Government department engagements you're talking about there. We will need to take that on notice.

The CHAIR: Let's turn to something else. I understand that the EY US partners voted just late last year on a new governance structure, including a board that would oversee management and approved strategy. Is that something on EY Australia's horizon?

CATHERINE FRIDAY: Changing the structure of the partnership or our governance model? Is that the question, Chair?

The CHAIR: That's right. To do something similar to the EY US partners.

CATHERINE FRIDAY: We don't have any immediate plans to change the Australian or in fact the Oceania governance model, Chair.

The CHAIR: Do you believe that the extent of regulation of the consulting industry is sufficient?

CATHERINE FRIDAY: It is certainly comprehensive. Again I will ask Leigh to comment on this as she deals with it daily much more than I do. Currently, we are subject to something like 44 regulators in Australia, which certainly seems like a large amount when you're on our side of needing to deal with and respond to them all. Leigh, did you want to comment further on that?

LEIGH WALKER: Yes, absolutely.

The CHAIR: Sorry, just before you do, just to inform that answer, I note that in your opening statement, Mrs Friday, there was a reference to being bound to these standards. This Committee did spend a long time with CA ANZ and with others talking to them about the lack of enforcement power that those regulations have behind them. Although we may have things in paper, I'm really interested in whether you think the enforcement of those standards is sufficient?

LEIGH WALKER: Yes, absolutely. And I will say that when we talk about the consulting industry, that is a subsection of what we do. A lot of the regulations and one of the major benefits of EY being a multidisciplinary firm is that body of regulation that we're subject to. As a simple example, the tax office and the case against the former partner is a clear example of regulation working, that the tax office identified that matter, conducted their investigation and have a legal case against that former partner. And so it is an example of where regulation absolutely does work and again, as I said, the benefit for us being a multidisciplinary firm, the lessons we learn from that process we apply across our whole business.

As an example, we have changed our gifts and hospitality policy and we haven't limited it to our tax partners. We've applied that across our entire partnership—partners and staff—so we take that benefit across the entire firm. In terms of regulation, again I would say—Catherine was mentioning the benefit of being a global network of firms. We're subject to global inspection and global oversight as well. In the US we have the PCAOB, who inspect not just the US firm; they come and inspect the Australian firm as well because of the audit work that we do under their standards. Again, that's talking about that enforceability, the inspection process that they have, as well as, as Chris mentioned, ASIC inspecting the audit engagements.

We do valuation work, so we're subject to inspection by the valuation association. It's the same with the legal work we do: We're subject to inspection by the various different law societies. So there's a whole breadth of regulation and inspection that we're subject to. To your point, we're not checking our own homework. We have whole teams of people that produce documents, produce information to respond to those inspection requests by those particular regulators. Again, as we've seen with the ATO, where they have cause for concern, they take action—in this case a legal case against a former partner.

The Hon. Dr SARAH KAINE: Can I pick up on that again? Because it goes to a previous question I had—granted I did embed it in about five, so I will go back to it now. That is the breaches that you identified according to your—55 breaches in 2022. The tax one obviously was identified externally. How are you identifying these breaches? What type of disciplinary action are you taking for them and how is that determined?

LEIGH WALKER: Like any large organisation, I want to say we have feelers everywhere. We don't rely on just one reporting mechanism. Yes, external reports is one of them. It could be from a regulator; it could be from a client. We have a client complaints process that we'd investigate matters. We have an ethics hotline that is externally available and that, again, is available to anybody who wants to submit information there. It's run by an external organisation but, again, we follow up and investigate that. We have our what you would call traditional HR structures in place so people have—we call it "talent". It's our talent team. We have talented talent professionals that people can discuss those with further to their line managers.

Everyone has that reporting mechanism. Again, one of the major benefits we have as a global network is that the vast majority of us have a dual hat reporting obligation. Yes, we might report to David Larocca, our chief executive, but I also report to the Asia Pacific risk management leader, so I have that opportunity to go outside the Australian firm or the Oceania firm if I feel it needs to be escalated. As an example, the ethics hotline is monitored by our global network to understand what each firm is doing in response to those complaints to the matters that are being raised.

The Hon. Dr SARAH KAINE: Of those 55, proportionally, where are they coming from?

LEIGH WALKER: The vast majority are internal matters, people raising it directly with our talent professionals saying they have a concern about someone's behaviour or something has happened. I would say that's where the vast majority of those complaints come from. One of the things that we're doing in response to the EB&Co. recommendations—a lot of their recommendations are improving trust in the complaints process, so we're doing even more in that space. We appointed Ombpoint, which is an external ombudsman organisation. They help people navigate EY if they have a matter they want to discuss.

They're also an external sounding board of saying, "I've got this interpersonal conflict with someone. I don't think it rises to the level of complaint, but can you help me discuss how I deal with it?" It's external to EY. We have reporting from them but no details. It's all very super confidential, as you can imagine, but they also help people see—if they say, "Oh, I've got this interpersonal conflict," they will have the conversation with them of saying, "You know, you should raise that as a complaint. That is significant enough. You need to raise it. Here's how we can help you go through that process." They are a support person to help them through.

One of the things we have seen pretty much from the month that we announced that we were engaging EB&Co. to undertake the review—we've seen an increase in the number of people making complaints internally. We think that's a good thing, because we want people to come forward. Because we can't do anything about it unless we know what's going on. We want people to have trust in our complaints process, to raise issues so that we can deal with them. We're looking at that. We're looking at how we report on matters where people have been exited from the partnership. How do we outline why they've exited? Because it is such a fine line between being transparent but also managing people's confidentiality, mainly for the complainant.

The Hon. Dr SARAH KAINE: Going back to part of the original question, what are the disciplinary actions you have taken for those 55—I'm interested in what the difference is here—and then the seven breaches of your values?

LEIGH WALKER: The disciplinary actions I think have been disclosed, and they'll range from counselling for the individual, so a course correction of, "This is what you've done wrong,"—

The Hon. Dr SARAH KAINE: I understand the scope. I understand the escalation. I want to know how many in each category.

LEIGH WALKER: Oh, okay.

The Hon. Dr SARAH KAINE: If you haven't got them now, I'll take them on notice.

LEIGH WALKER: I do have them. We disclose that in our value realised scorecard of how many complaints we have and the results of those. If I can find the right page, I will be able to tell you. On page 21 of our value realised scorecard, we have the workplace investigations and we have the consequences arising from those investigations. We had four formal outcomes—so that would be something like a warning letter—13 informal outcomes, 12 terminations and 17 no action taken. At the time of that report, there were four matters that were still ongoing.

The Hon. Dr SARAH KAINE: And that was for one calendar year?

LEIGH WALKER: Yes.

The CHAIR: It was reported that you had about double your usual attrition rate of partners in the six months at the end of the last calendar year. It was reported that around 20 of those partners left, whereas another 20 partners were reported to have been pushed out. Was any of that in response to the EB&Co. report?

CATHERINE FRIDAY: Specifically in response to that question, Chair: No, none of that was specifically related to the EB&Co report. If I can give a bit of background about the EB&Co. report. When we commissioned that, it was with absolutely no guardrails. We said to the team, "Go into our business. Find whatever you find. Let us know what that is. We're actually not going to give you specific terms of reference around that because we want to know whatever it is you find. However, if you find repeated or recurrent names or instances of behaviour that you feel represent any sort of threat or risk to our people, please bring that to our attention. We need to know and we need to be able to act on it." There were no such notifications that were made as part of that process.

The CHAIR: Why were such a huge number then—I don't want to say "such a huge number", but double what the normal rate would be—leaving at the end of last year?

CATHERINE FRIDAY: There were a couple of things that were in train at the end of last year. As you'd appreciate, as in any organisation, there were some partners that simply got to the end of their tenure as partners

with the firm. So, for them, it was, if you like, a usual and planned separation at a particular career juncture. However, at the end of last year there were also some partners and also staff that separated from the firm as a result of the unstable and volatile market conditions in which we find ourselves operating—not unique just to us, of course. Although we had made a number of decisions to do things like reduce expenses, redeploy staff and partners where we could, and even delay some new staff starting with us, nonetheless we did need to restructure some parts of our business. Sadly that meant that there were both partners and staff that left the business just before Christmas.

The CHAIR: It's been disclosed that EY gave almost a quarter of a million dollars in political donations in the 2022-23 financial year, and that this was up 75 per cent from the previous year. The obvious inference from my perspective and from many in the public is that this was a response to the additional heat that the industry is facing. Why do you give political donations? What do you expect to gain from it?

CATHERINE FRIDAY: Firstly, I want to be clear about what we mean by political donations, because as a firm we never give cash to anyone. What we do do is buy tickets to ticketed events. As part of disclosing that to the AEC or the NSW Electoral Commission, that is captured under the broad heading of "donations". But it is never just cash to parties. It is always tickets for events that any member of the public can buy tickets to. We attend those events because, by doing so, we actually learn a lot more from our elected officials about their policy priorities. That means that when we are doing things like responding to tenders that are issued by departments, we have a better understanding of the exam question and the context that we are preparing to support a department or agency to respond to themselves. In effect, it gives us better contextual information about the sector that we're here to serve. That's why we engage in that way. In terms of the donations—they're characterised as donations. The purchase of tickets being up year on year—a large part of that was we didn't actually engage in much activity for the couple of years over COVID.

The CHAIR: It's up, though, significantly from—I think it's the highest we've seen for EY since 2018-19, which probably doesn't quite capture just the pre-COVID period. So you're saying it's entirely tickets; there's nothing else. It's all tickets to events, \$228,000 worth?

CATHERINE FRIDAY: Yes, across Federal and State governments across Australia. Yes, that amount is correct. That also, though—I mean, it captures tickets that we have bought across a couple of years, given the reporting cycles that are captured within that time frame, but, yes, it is for ticketed events—either events that we have attended or events that we have hosted within the firm but to which other people are able to purchase tickets as well.

The CHAIR: Okay. So, effectively, this is buying access to government officials?

CATHERINE FRIDAY: We are buying tickets to events where we can hear from elected officials, and they are open forums to which any member of the public can attend.

The CHAIR: Any rich member of the public. I mean, not everyone has money to buy tickets to go and hear directly from a government member. When we talk about the danger of political donations, the reason why ticket sales are included within political donations, is because it's about access and influence to government that the average voter doesn't have, and that's why it's seen as a distortion of our democracy. We're talking about buying access or buying tickets to events where presumably you're not just hearing policy, because that's open to the public. We would hear that through the media, through whatever; maybe you hear it a bit earlier. But, presumably, you get to talk to the government as well. You get to talk to government officials or build a relationship with government officials, particularly if it's within your own firm that you're hosting these events.

CATHERINE FRIDAY: Occasionally, we would get to talk to people, absolutely, but in ballrooms full of hundreds or thousands of other people as well, as I said, that are freely public—well, not freely; publicly available to whomever cares to purchase a ticket and be in the room to hear what is said.

The Hon. Dr SARAH Kaine: On a slightly different topic about information management, really, within EY, I just want to know what type of or if you use any type of AI to collate information, prepare tenders, conduct content analysis. I would just like to know a bit more about that, if you know.

CATHERINE FRIDAY: Absolutely. Leigh, are you happy to take that?

LEIGH WALKER: Yes, absolutely. We do have—I think it's \$1.8 billion global investment in AI and how we can use AI. We don't currently use AI for those scenarios you talk about. We have an EY.ai tool that our staff can use.

The Hon. Dr SARAH Kaine: Sorry, can I just clarify? I'm not talking just about open AI. When you say you've got a tool, you currently do have a tool for EY staff?

LEIGH WALKER: Yes, and they are limited on how they can use that. As an example, they can use it—I've seen it most effectively used when someone has got minutes from a meeting and they want them summarised. They can put that in the EY tool, and then they get a nice little summary next out of it. That then goes on their files for their engagement. The great advantage of us having that EY.ai tool—which is really hard to say—is our information is not going into that public version of AI.

The Hon. Dr SARAH Kaine: No. But this is my next question; thank you for pre-empting it. Because it's quarantined, it's not open AI. But is it "open EY" in that what I put in, another consultant can access, or it feeds the brain of the EY.ai so that it becomes part of it?

If that's the case, how do you quarantine parts from one client to another?

LEIGH WALKER: Yes, absolutely—fabulous questions. I sent an email to the whole of the firm last year to say, "Be cautious. Don't do that." Our AI tool does not remember. So when you put the information in, it does not retain a copy of it. It is to test the flexibility on the use cases of using AI without it learning, because of that concern around people putting client information in that then gets shared inappropriately to somewhere else. So it doesn't currently learn. That is what our investment is about. It is looking at how can we do that so that we can maintain client confidentiality and we can make sure that it is high quality.

The Hon. Dr SARAH Kaine: So it is more a sophisticated word processing tool than a learning tool?

LEIGH WALKER: Yes, it's not currently a learning tool. It is educated I think up until 2021. Similar to OpenAI, there is a certain time limit on what the AI does learn, and we have rules in place around how you can use the AI. For example, you cannot use it to then produce a client deliverable. It cannot be used in client deliverables. So a client engagement report would not include big chunks of text that are from AI.

The Hon. Dr SARAH Kaine: But would you have something that does content analysis? You must put together hundreds and thousands of tender documents.

LEIGH WALKER: Yes.

The Hon. Dr SARAH Kaine: Does it do that kind of thing?

LEIGH WALKER: No.

The Hon. Dr SARAH Kaine: So everything is from scratch?

LEIGH WALKER: No, we'll have templates and we'll have sanitised versions of old tenders that we've done. We will remove the client-specific information.

The Hon. Dr SARAH Kaine: What about reports? They would be the same structure too, wouldn't they?

LEIGH WALKER: They would be similar, but, again, if they are going to be shared outside of an engagement team, they have to be sanitised. If it's an engagement that has gone public and the report has gone public—so it might be a New South Wales Government engagement where they publish the report—then, of course, that report can be shared.

The Hon. Dr SARAH Kaine: That's about reporting and tendering. They are the things that are going externally, but it's this conflict of interest thing. How do we know that information from one client isn't inadvertently informing what you are doing with another client because it's in the same thing? Say it's in gas, "What have we done on gas?" Are there firewalls? What's the process?

LEIGH WALKER: I think we are talking about two different things here. One is the client-specific information.

The Hon. Dr SARAH Kaine: Yes.

LEIGH WALKER: For individual engagements, access to those files is limited.

The Hon. Dr SARAH Kaine: Yes, I understand that. That's data management.

LEIGH WALKER: As part of that, that engagement team will learn from that engagement and then will share the learning as a general point of view, not a client-specific point of view, with others that might operate in that same industry, but it would not be client specific. They would be learning about the challenges faced in that industry and be able to share that information, but, like I said, it is not client specific. It wouldn't be saying, "This client had this challenge on this one system," or, "They had this error or this mistake in this one system." It would be more general than that.

The Hon. Dr SARAH KAINE: To clarify—sorry if it sounds repetitive—there is no tool currently in EY that specifically conducts content analysis or draws or scrapes data from a variety of places?

LEIGH WALKER: No. We are testing a tool to do that, and it's being tested globally with our risk management and IT risk management professionals for that exact risk that I think you are talking about. It is making sure that, if we are going to be doing that, we do it appropriately. We are a heavily regulated organisation, again, in Oceania, but also globally, and we have different layers of regulation that apply. That global team is really testing to see if we can comply with all of these hundreds and hundreds of regulations that apply to the work we do, particularly from government, that says that that data must be maintained in Australia. How do we make sure that that comes through? As an example, in that global pilot where they are testing that system, no-one who works on government engagement is allowed to be part of that pilot.

The Hon. JACQUI MUNRO: You said that you were subject to about 44 regulators. I'm curious, do you have a list of those regulators? If you could provide us with that, that would be helpful. Also, do you find that there are competing regulatory environments that conflict amongst those 40 groups?

CATHERINE FRIDAY: Absolutely, we can provide a list of all of the regulatory bodies to which we have accountabilities. I'm happy to take that on notice. Again, in terms of dealing with them day to day, Leigh.

LEIGH WALKER: I wouldn't say there's ever conflict. There's a matrix of regulations so that one regulator might have a rule that says "If you're doing X, you must do Y" and another regulator says "Well, if you're doing X, you must do Y plus A", so we look for what is the most strict rule that we have to follow and apply that across the firm as required to make sure we're meeting whatever is the strictest rule on that particular topic.

The Hon. JACQUI MUNRO: Are there some examples of regulators that have the strictest rules in a reliable fashion?

LEIGH WALKER: Definitely our audit independence rules are the strictest rules that we have to comply with. It's a good call out, because in the past we always said the US had the strictest rules around audit independence. But in the last couple of years the International Ethics Standards Board for Accountants have changed their rules around what non-audit services auditors can provide to their audit clients, and those international rules have been adopted in full and actually gone further by the APES board. They've imposed additional restrictions on the non-audit services that can be provided to audit clients. To the question around the services we provide to Santos, they would broadly be in this area of assurance. So it's further assurance work that we would be doing, and that is partly because of Santos's wishes, but also because of these regulations that apply.

The CHAIR: Just on that audit point, are there ever circumstances in which the fact that EY is doing audit work for a client would be seen as a conflict of interest—

LEIGH WALKER: Yes.

The CHAIR: —or a potential conflict of interest? So there are times when you would?

LEIGH WALKER: Yes, absolutely.

The CHAIR: Can you give an example?

LEIGH WALKER: Where we've got an audit client on the other side, it's the most often example, where it might be a transaction and we're being asked to evaluate. We sometimes are asked if we can sit in a negotiation room with an audit client on the other side. As Chris mentioned, because we can't advocate for an audit client, that would be problematic because we would be challenged on what we could do. So we don't allow those sorts of scenarios.

The CHAIR: Would you ever do that for a government policy style type of work?

LEIGH WALKER: If the government policy was so specific to an individual entity, yes. But that's unusual.

The CHAIR: We had a sort of similar thing with PwC when they were doing audit work for Transurban and then they were also advising the Government—obviously from a completely different part of their firm, they were advising the Government in relation to an unsolicited bid that had come in from Transurban. We asked about that, as to how can you do both of those. And we can talk about whether they should have done it or not, but the point is that they said that they had disclosed it to the Government and they had put in place processes to manage that because they had acknowledged it as a conflict of interest in the first place.

LEIGH WALKER: Agreed.

The CHAIR: It's just in relation to this particular Santos work that it wasn't felt that there was a conflict of interest with the audit relationship? It's not that a blanket sort of audit can't really influence policy?

LEIGH WALKER: Absolutely, audit is the biggest cause of conflict within our organisation. As another example, we might be asked by a government department to help with a technology project, and that technology project might involve meeting with the technology supplier. We audit a large number of technology companies, and we have to decline a lot of work in that space because we cannot meet with those technology companies because they're our audit clients. We can't work collaboratively with those tech companies for the benefit of a government department.

The CHAIR: In relation to that AEP and Federal department of climate change issue we were talking about before, even if it's not considered to be a conflict or perceived conflict of interest, was there any disclosure of any kind given to that Federal department in relation to the work that you were doing for the Australian Energy Producers?

LEIGH WALKER: Let me just clarify the scope of work. I will use my notes here because we have agreed with the department on what we can share publicly, recognising that it is, like I said, a Federal Government piece of work there. The work that we were doing for the department was to analyse and give advice on emission outputs for facilities across Australia—so oil and gas, manufacturing and mining facilities. It wasn't limited to the oil and gas industry. This involved looking at analysis of best practice benchmark values for new facilities under the safeguard mechanism. It involved looking internationally—again, going to the point we're making about the benefits of our global network. It looked at international best practice around emissions but to give that information to the department, for the department to then decide how they wanted to build that into the safeguard mechanism or not, as is the case or as is the right of that department. So the work we did for the department was predominantly fact finding. Again going to that question of why do government need to use consultants, that global reach that we have allows the Federal department to have access to that information to inform their policymaking.

The CHAIR: Again, that's not a science. I do quite a lot of work on energy. I have the energy portfolio for The Greens. So I know that what we refer to as international best practice is highly contested, depending on which jurisdictions you're looking at, whether best practice is really what's already being done or what should be done, whether the regulation of a particular jurisdiction you're looking at has been designed with industry in mind or whether it is a bit firmer on industry. Obviously, there's a lot of decisions, again, made there about what international best practice is. So it's not quite just a fact-finding mission; it's a putting together of information that you have chosen to grab from different places and then to decide what that makes up. That is still advice, isn't it? There's still decisions being made about what to include in that advice.

LEIGH WALKER: And that's where that goes to the quality of our deliverable to the department and the role of the department in assessing the quality of our work. So we'd be having constant conversations with them about their view on what is best practice, what are they looking for, what is the standard that they are looking for. So we're not being given a tender and then disappearing off and then coming back with a report six weeks later, with no conversation with the particular department. They're fully engaged in our engagement process. They're, obviously, our clients. They are the ones who will determine the quality of our work, so they need to be involved in that discussion. It goes to the quality of the Australian Public Service, that they have that challenge of the work that we do.

The CHAIR: Again, it's really hard to—I'm trying to think about what it would be like if you were somebody on the street, hearing this for the first time. You have a situation where consultants are putting together advice in collaboration with government. Sure, there's always going to be instructions. And no-one is accusing you of skewing the advice to suit your other clients. But I think the average person would still see that there was a conflict or a perceived conflict of interest where you were providing advice that is either going to be more or less favourable for a whole bunch of the other clients you rely on for your very existence. Do you not see that that—

LEIGH WALKER: Our clients reflect the spectrum of Australian business. What I'm hearing you saying is that we could be benefitting the oil and gas industry. But that would be against some of our other clients. So you're suggesting that we—

The CHAIR: Which ones?

The Hon. SCOTT FARLOW: I imagine you've got renewables, for instance, who are clients.

LEIGH WALKER: Renewables. Exactly. We do work for wind farm generators. So we could be accused of leaning towards giving advice that's benefit for them. The whole point of engaging us in our advice is that it is

objective. We are bound by the professional standards, as all our partners are members of CA ANZ. And, as I said, we flow that standard throughout our whole organisation, not just in Australia but across the world.

The CHAIR: What, then, is the percentage of revenue that you get from fossil fuel industry as opposed to the renewables industry?

CATHERINE FRIDAY: Perhaps we can take that as a question on notice, please, Chair.

The CHAIR: Thank you.

The Hon. Dr SARAH KAINE: I know that the Chair did ask you a question regarding structure and comparison to PwC. We had the not-PwC bit in this morning. One of the issues that has come up with each of the consulting groups who've come in is the issue of partnerships. I presume yours, EY, is similar to other consultancies, with your own idiosyncrasies. I noticed that one of the key themes in your submission to us was about transparency. Partnerships seem quite opaque, compared to other corporate structures. How is that not at least a little bit hypocritical, to be talking about the importance of transparency, when really there's very little known outside the box of consultants about what happens in those business structures—very unlike other businesses that we deal with and have to try and get our heads around?

CATHERINE FRIDAY: Absolutely, and there are a few parts to answering that question, if I may. Firstly, as I'm sure this Committee is aware, the Treasurer has requested that the Secretary of the department of Treasury actually undertake a review into the structure and the obligations of partnerships in Australia. I believe that report is due to be tabled in 18 to 24 months from now. We are really actively involved as part of the discussions and process and considerations around that. In terms of partnerships as they are set up today, I absolutely accept the point that they can appear opaque from the outside looking in. We take our obligations around transparency really seriously and each year produce a value-realised score card out to the market, which discloses a lot of data very similar to what would be in an annual report from a range of listed companies.

What is, if you like, a distinguishing characteristic of partnerships, though, is the fact that all partners are jointly and severally liable together and for each other. So there is a very high level of internal responsibility and accountability in which partners effectively have the same level of responsibilities as do directors for companies for the partnership in which we operate. Our level of obligation to each other and to the business of which we are partners is very, very high. It actually exceeds the obligations of directors. Whilst I appreciate that doesn't actually help with the issue of transparency, hopefully it helps alleviate any concerns that we're actually not being held to incredibly high levels of governance standards.

The Hon. Dr SARAH KAINE: Well, it could be collusion internally. I'm not suggesting it is. But because we can't see it, your commitments or partners' commitments to each other is not a really satisfactory kind of consolation for those on the outside.

LEIGH WALKER: Maybe ask Chris to talk about the transparency report as well.

CHRIS GEORGE: Probably a couple of things. We do have various transparency reports that we have to provide under Commonwealth legislation. We actually provide a lot more in that report than we're required to do. There clearly is a culture within our firm now of let's disclose more rather than less. We're not a partnership to avoid transparency; we're a partnership as a function of history. Catherine mentioned the Federal Government review that's going on with Treasury. Our submission to the various Federal inquiries at the moment is saying, "We are up for transparency. Let's come up with a regime that is fit for purpose, that can apply across the industry, and we're happy to comply." We're not here as a partnership to avoid transparency—quite the opposite.

The CHAIR: Just going back to those comments, then, about partnerships. I think we all learn at law school about the old-school partnership structure where you have four or five people who are all equally jointly liable for the successes and the risks of the business. What we have, though, in these modern partnerships is something very different to that. I can't remember how many partners you have. But there's not just the sheer number of partners; there's also the limit on liability that partners have that wouldn't have been the case 50 years ago. How does that impact, do you think, in terms of the comments you made about it being pretty much the same as being directors of the company?

CATHERINE FRIDAY: I think I said it's actually a higher level of duty that we carry to directors of a company. Directors also have insurances, of course. We're not unique in having access to professional indemnities and insurances.

The CHAIR: Sorry, not insurance. I'm talking about the scheme that protects the ultimate amount of liability that you can be subjected to that New South Wales has gifted.

CATHERINE FRIDAY: I understand. Perhaps I can ask Leigh to respond to that.

LEIGH WALKER: The scheme is an occupational scheme. It's not dependent on whether you're a partnership or not. Whether we're a partnership or not, the scheme would still apply. It's based on the services we provide. We're obviously subject to the professional standards scheme that applies to members of CA ANZ. There's a limit for audit work—different for different types of work. Similarly, I mentioned earlier that we're subject to inspection by the Australian property valuers. There's an Australian property valuers scheme as well. Anyone who is a valuer in Australia would be subject to that limitation on liability as well—again, regardless of your business structure. Whether you're a partnership, whether you're a corporate, whether you're a sole trader, if you meet the membership requirements you have the benefit of that scheme.

The CHAIR: There are about 800 partners, though, aren't there?

LEIGH WALKER: Seven hundred.

The CHAIR: It's pretty hard to keep a check on all of your 700 partners in the same way that a board of directors would. Do you think that that partnership structure is really fit for purpose when you get to 700 partners?

CATHERINE FRIDAY: I was going to say I think we do have lots of checks and balances. I know we have many checks and balances in place across all of our partners and the activities that they undertake. Is it a good time to consider alternative models? Clearly, the Federal Government thinks so. As we said, we are absolutely participating as part of the process for considering what alternative models could potentially be.

LEIGH WALKER: I will just add in there—one of my areas of responsibility is around our compliance framework. Our compliance framework applies across the partnership. Every five years every partner is subject to a personal independence compliance audit, so our policies require them to disclose all their financial interests and the financial interests of their immediate family members. Once every five years every partner is tested. For anyone in a leadership position, that's every three years. We also test anybody before they become a partner to make sure they have complied with our policies. That's just one of the many tests and compliance activities all of our partners are subject to. All of that compliance activity goes to the end-of-year assessment of an individual partner and will have a direct impact on their profit share.

The CHAIR: Hypothetically, if tomorrow you decided to have a corporate structure, those 700 partners, the vast majority of them, would become employees of that entity and no longer be at that sort of ownership level, so not taking partnership drawings. Last year I put forward a proposal that those takings of all of those partners from the profit pool of entities like yours should be subject to payroll tax in the same way they would be if they were employees, and my proposition was that really using the partnership structure to avoid paying the same amount of taxes as everyone else—sorry, I won't use the word "avoid", because I know that for tax lawyers that's a very different thing. The point is that, because you're a partnership, you don't have to pay payroll tax on what for anyone else would be considered—I know it's technically a partnership drawing, but for anyone else it would be a salary. I know you were quoted in the news as not being very happy about that proposal. Why shouldn't you pay payroll tax like everyone else?

CATHERINE FRIDAY: To be clear, we're not using the partnership structure for taxation reasons.

The CHAIR: I understand that, but it's still got its benefits, doesn't it?

CATHERINE FRIDAY: All of our partners pay tax and the firm pays tax. We pay payroll tax on all of our employees in every State and Territory in which we operate.

The CHAIR: No-one is disputing any of that. Under the current law, you are paying your tax. No-one is saying you're not. We are proposing to change the law. You were quoted as being not in favour of that change by making very similar statements to "We already pay tax". That's not the point here, is it, though? This is about whether or not EY is paying its fair share. If you were under a different structure, you would have to, wouldn't you?

CATHERINE FRIDAY: Absolutely. If we were under a different structure, we would absolutely comply with that structure, whatever that structure happened to be.

LEIGH WALKER: I would just add a couple of points there around—partner income represents return of the work done, but it also represents, effectively, a shareholding. Some of the income that our partners are earning is because of the investment in the business that they've had, like any other individual that might invest in a corporate entity. It's a very different purpose of that.

The CHAIR: I understand. When they were little partnerships, this kind of made some sense. You were getting the benefit.

LEIGH WALKER: We're all still investors in the partnership. We are still owners.

The CHAIR: Technically.

LEIGH WALKER: No, not technically. We are owners of the business.

The CHAIR: I understand. Yes, sorry, I do understand partnership law. My point to you, though, was that you have now these structures that are the best of both worlds. You're getting limited liability. You're getting the lack of transparency that comes from being a partnership rather than a company. But unlike a company, you don't have to pay the same amounts of tax. It's a great structure. I can see why you don't want to change it.

LEIGH WALKER: We have unlimited liability as a partnership.

The CHAIR: Sorry, under the laws for your—

LEIGH WALKER: The professional scheme is not dependent on us being a partnership.

The CHAIR: No, that's right. But you still benefit from that, even though you are a partnership.

LEIGH WALKER: But it's nothing to do with us being—if we were a corporate, we would still be a member of the professional scheme.

The CHAIR: That's not my point. My point is that you exist in an environment where that does exist.

LEIGH WALKER: It's not because we're a partnership.

The CHAIR: I didn't say it was.

LEIGH WALKER: We still have unlimited liability as a partnership.

The CHAIR: Okay. But in practice?

LEIGH WALKER: As an example, if one of our partners committed fraud, we would all be jointly and severally liable for that fraud, separate and different to a corporate structure, where the company would be limited to the company's interest. We are not.

The CHAIR: Yes, I understand that. The point still remains that, in the world that you live in, when there is fraud, or some sort of misconduct by one of your partners, they get the benefit.

LEIGH WALKER: No.

The CHAIR: So there's no benefit?

LEIGH WALKER: The scheme does not apply to fraud or misconduct. The scheme applies to professional services.

The CHAIR: Right, I see. You're talking about that aspect. So in relation to that particular type of misconduct?

LEIGH WALKER: Yes.

The CHAIR: Fine. But not in relation to the other stuff, which you're still getting the benefit of?

LEIGH WALKER: What other stuff are you talking about?

The CHAIR: Well, what does the scheme cover?

LEIGH WALKER: The scheme covers our professional operations. So if we're being sued because of an audit and we're found not to be fraudulent in the audit but there was a failure in the audit, then the scheme would cover that.

The CHAIR: So sloppy work is covered by that?

LEIGH WALKER: Sure, yes.

The CHAIR: Again, this is about getting the best of both worlds. You get the benefit of that scheme, but you also don't have to pay payroll tax and a bunch of other things.

LEIGH WALKER: So, again, the benefit of the scheme comes regardless.

The CHAIR: Yes, we still understand that.

LEIGH WALKER: One thing I will say about partnership tax and the implications for that—we pay tax earlier than a corporate would. So our partners have to pay PAYG.

The CHAIR: But you pay less tax.

LEIGH WALKER: I wouldn't say so. Our average tax rate that we disclose in our value realised scorecard I think is 39 per cent and the corporate tax rate is 30 per cent.

The CHAIR: These issues will no doubt be further fleshed out in the Federal inquiry. Thank you very much for your time today. We do appreciate it. The secretariat will be in touch in relation to questions taken on notice and any supplementary questions.

(The witnesses withdrew.)

The Committee adjourned at 12:30.