ARTICLE

Australian PwC affair: An international perspective

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A team of Australian and Italian researchers continues to investigate the PwC Australia tax scandal and its global implications, by reviewing reports and evidence from the Senate Finance and Public Administration References Committee (SFPARC).

1. Introduction

In this issue of *BESS*®, Dumay, Ricceri and Guthrie explore the PwC Australia tax issue to September 2023. The current paper updates and reviews what we have learned from the Senate Finance and Public Administration References Committee (SFPARC) inquiry reports and evidence.[1] In doing so, it brings the narrative about aspects of the Australian PwC case up to date, focusing on the possible implications for PwC.

The Senate Committee's first report centres on the scandal when former partners shared confidential Treasury details on multinational tax laws with colleagues, who then sold the information to American companies under 'Project North America'.[2] The first report reveals that PwC intentionally engaged in a prolonged strategy to conceal the tax leak scandal and criticises significant leadership failures by its executives.[3] Through the 12 months of Senate inquiry into the consulting industry, it has come to light that PwC's choice

1. Senate Finance and Public Administration References Committee (SFPARC) inquiry reports 1 (2023) and 2 (2024); hereafter referred to as Report 1 and Report 2
2. Lucas and Guthrie, 2024
3. SFPARC Report 1

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to withhold a report on the global aspects of the tax leaks scandal may be considered a continuation of the firm's efforts to bury the scandal,[4] with the second report questioning whether PwC effectively addressed the scandal's root causes.[5] For example, the second report states that PwC's use of legal professional privilege[6] reflects its problematic interaction with the Senate Committee, which has not yet proved it has substantially changed its operations. The evidence for this refers to the Senate Committee's demand that PwC release a report from the law firm Linklaters[7] regarding overseas PwC partners associated with the leaked tax details, which they refused to do, claiming professional privileges.

The implications of the controversy are widespread. It has raised questions about the sources of government advice and whether reliance on the private sector has severely compromised public services and public policy choices.[8] It also prompts concerns about the role of the Big Four in auditing large global corporations, given that these consulting firms are involved in auditing 98% of global corporations with revenues exceeding US$1 billion and a wide range of companies listed on the FTSE 100 Index in the UK and the Fortune 500 in the US. Moreover, they handle audits for 97% of Australia's ASX 300 companies.[9]

Other concerns relate to multinational corporations engaging in cross-border tax avoidance, with the Tax Justice Network revealing in July 2023 that governments annually lose about US$480 billion due to global tax avoidance, totalling US$4.8 trillion over the upcoming decade.[10] Within this total, US$311 billion stems from multinational corporations engaging in cross-border tax avoidance, while US$169 billion arises from affluent individuals participating in offshore tax avoidance. Cross-border tax avoidance involves declaring profits in a low-tax jurisdiction with lenient regulations to avoid taxes in a high-tax jurisdiction with stringent regulations.

Despite repeated allegations of conflicts of interest against the Big Four, empirical data indicates substantial concerns about their involvement in these activities that warrant investigation.[11] For example, the International Consortium of Investigative Journalists (ICIJ), in its report on the LuxLeaks scandal, revealed the involvement of PwC. In 2014, the ICIJ released 47,000 pages detailing 548 advanced tax rulings created for 343 global companies by PwC Lux and endorsed by Luxembourg's tax authorities. The documents revealed that income transfer practices within company groups resulted in significantly lower tax rates than the official ones in Luxembourg. The LuxLeaks' disclosures attracted international attention and comment about tax avoidance schemes in Luxembourg and elsewhere. This scandal contributed to implementing measures to reduce tax and regulate tax avoidance schemes beneficial to multinational companies. The ICIJ's inquiry revealed that IKEA, AIG, Deutsche Bank and numerous other global brands were granted confidential agreements in Luxembourg, enabling them to lower their worldwide tax obligations significantly. PwC assisted multinational corporations in obtaining over 500 tax rulings in

4. Tadros, 2024a
5. SFPARC Report 2
6. A legal concept safeguarding the confidentiality of documents and communications between lawyers and clients produced to deliver legal counsel
7. Hereafter Linklater report
8. Lapsley et al., 2013
9. Guthrie et al., 2023a
10. Lucas and Guthrie, 2024
11. McKenzie-Murray, 2023

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Luxembourg between 2002 and 2010, utilising arrangements to decrease their tax liabilities significantly.[12, 13]

To try and combat multinational tax avoidance, the Australian Government used PwC's head of international tax, Peter Collins, to assist in preparing legislation. However, the allegations are that Collins used confidential tax information from the engagement to share it with colleagues. The scandal emerged from allegations that PwC partners used confidential information to market tax avoidance schemes worldwide.[14]

Because of the tax scandal in Australia, PwC was penalised by the Public Company Accounting Oversight Board (PCAOB) in the US for its failure to report the Australian Tax Practitioners Board's (TPB) sanctions against it. The term 'failure' is featured in the PCAOB's official order and press release. In Australia, despite action by the TPB, professional accounting associations have not acted on PwC's behaviour, underscoring the urgent need for intervention by the government before trust in the accounting industry is further damaged.[15] The inadequate intervention raises questions about where PwC's behaviour falls on the professional conduct spectrum within the Australian ethical framework and who should assess any violations.

This paper presents a case study on what has led to the current situation for PwC and what it means for PwC and other Big Four firms in Australia. It does so by first providing background to the tax scandal involving PwC Australia from 2013–2016. The research methods employed in the case study use investigative journalism as a data source to explore the international implications of the tax issue. We develop insight into the relationship between PwC Global and PwC Australia and examine the actions taken by the PCAOB against PwC Australia. We then outline how the Big Four are regulated in Australia, relying on submissions made by critical stakeholders to the Senate inquiry. Before concluding, we discuss the way forward for PwC, including a comprehensive analysis of the separation of audit and consulting.

2. Background to PwC Australia, 2013–2016

In November 2013, Peter Collins attended the first meeting of the Australian Treasury's Base Erosion and Profit Shifting Tax Advisory Group (BEPSTAG), signing confidentiality agreements about his involvement in December 2013.[16] Collins forwarded the unsigned confidentiality agreements to Seymour, then leader of PwC Australia's tax practice. Nobody in PwC Australia identified or reported the apparent conflict of interest 'that arose from having client-facing partners participating in confidential government consultations.[17]

In April 2015, Collins communicated via email with unidentified PwC Australia and international colleagues about the Australian Government's potential implementation of a Diverted Profits Tax similar to that of the UK. In May 2015, PwC began promoting client structures that comply with the anticipated multinational anti-avoidance laws (MAAL). On 5 August 2015, Collins emailed internal distribution lists to confirm the MAAL's effective date of 1 January 2016. Additionally, on the same day, partners corresponded with at least one multinational corporation, indicating that January 2016 was likely the starting date, given

12. Shiel, 2023
13. Ouriemmi, 2023
14. Turner-Cohen, 2024
15. Lucas, Guthrie and Dumay, 2024
16. PwC Australia, Review of Tax Confidentiality Breaches and Related Questions, 27 September 2023, p. 3
17. Ibid.

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pressure from the Treasury for the law to pass through Parliament by October.[18] PwC Australia, in its review of the tax scandal,[19] acknowledged that:

> **Since confirmation of the start date of the MAAL was confidential information provided to Collins in his role as a BEPSTAG consultant, Collins should not have disclosed that information internally. Further, McNab's use of that information to market tax services to clients was a conflict of interest and an additional breach of confidentiality.**

The Treasury referred the PwC incident in May 2023 to the Australian Federal Police (AFP), and it is an ongoing investigation, so we will refrain from providing additional comments on the individuals implicated. Instead, we rely on previous research,[20] which reveals that PwC's actions involved disclosing confidential information regarding an upcoming tax avoidance legislation to international clients to circumvent its impact. The scandal has led to various public inquiries in Australia.

The Senate inquiry's first report focused on the unauthorised disclosure of sensitive government data by PwC Australia partners.[21] The report scrutinised the actions of PwC Australia during and after the breach, including efforts to conceal and fail to report the incident. The Senate Committee reviewed the evidence collected during the inquiry alongside publicly available information, finding that PwC Australia had not adequately addressed the issue internally or held its partners accountable for their avoidance. In its first report, the Senate Committee recommended that PwC disclose accurate and comprehensive information regarding the involvement of its partners and staff in the breach of government data and that it cooperate fully with any investigations.[22] PwC Global has refused to waive legal professional privilege regarding the report, indicating the systematic nature of its problematic engagement with Parliament.

Through our scrutiny of the investigations and scandals outlined above, we have become aware of how the influence of the Big Four partnerships leads to the privatisation and erosion of the public sector. Prioritising the profits of consulting firms and the interests of large corporations over the public good threatens our democracy.[23] Table 1 provides a brief public timeline and several key issues, which we outline below.

TABLE 1: Timeline and key issues

1.	2015–2022, PwC marketing aggressive tax strategies.
2.	September 20 2023, Switkowski review uncovers PwC shadow culture.
3.	September 26 2023, PwC releases commitment to change.
4.	June 20 2024, PwC Global imposes a new CEO of PwC Australia.
5.	March 14 2024, PwC Global refused to waive legal professional privilege concerning the Linklater report, which indicates its problematic engagement with Parliament and suggests a systemic issue.
6.	March 17 2024, the Federal Parliament stated that PwC's internal reforms are superficial.

The first key issue in Table 1 is PwC's aggressive marketing tax strategies from at least 2015. Asked in 2024 to what extent PwC marketed aggressive tax strategies and how that squared with repairing the brand, Burrowes, recently appointed CEO of PwC Australia, rejected the premise of the

18. PwC Australia, Review of Tax Confidentiality Breaches and Related Questions, 27 September 2023, p. 6
19. Ibid.
20. Lucas, Guthrie and Dumay, 2024
21. Tadros, 2023a
22. Report 1, pp. 18–19
23. Mazzucato and Collington, 2023

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question: "What evidence do you have that we market aggressive tax schemes today? … Our tax business is predominantly a compliance tax business; we help businesses gather data from their systems, comply and submit tax returns." Burrowes was asked if that meant he was confident no PwC tax advisers were engaging in marketing aggressive tax strategies, even if legal, but he declined to provide a direct answer.[24]

The second issue is the exposure of a shadow culture at PwC in a review commissioned by PwC and undertaken by corporate veteran Switkowski. His alarming report noted a 'shadow' culture at PwC that accepted avoidance in the quest for financial gain, promoting growth at any expense and a governance deficiency that remained unchecked and unresolved for many years, ultimately contributing to the company's tax scandal leaks.[25]

The third issue from Table 1 is PwC's pledge to transform, made in September 2023. This pledge is one of many and includes appointing impartial directors to the board and adopting ASX corporate governance guidelines.[26] 'Our Pledge to Innovate' proposes a more streamlined PwC, with a reduction in partners from approximately 900 in mid-2023 to an anticipated 650 by the end of 2024. Moreover, with around 680 staff members made redundant the previous year, the company highlighted its aim to concentrate on expertise in auditing, tax consultancy and transactions. Additionally, PwC pointed to the potential for expansion in four key focus areas: artificial intelligence, prioritising trust in critical aspects, the shift towards achieving net zero and revamping business models.[27]

The fourth issue is the abrupt arrival of a new Australian CEO for PwC, Burrowes – a seasoned executive with three decades of PwC experience – to lead the Australian partnership and shift focus beyond revelations in the Senate inquiry.[28]

The fifth issue is PwC Global's refusal to waive legal professional privilege on the Linklater report, highlighting the pattern of its challenging relationship with the Parliament. PwC Global hired Linklaters in May 2023 to investigate allegations of sharing confidential information from PwC Australia with non-Australians. Although Linklaters stated, in a carefully crafted press announcement, that no avoidance occurred, PwC has refused to release the full report, claiming legal professional privilege. The Senate Committee insists on accessing the full report. When questioned about PwC Global's choice not to reveal the contents of the Linklater report regarding the global aspects of the scandal, the Australian CEO explained that the decision was not within his authority. When asked how PwC Global's actions reflected the fundamental value of 'conducting with integrity', the CEO – whose leadership was imposed on the local division by the influential global headquarters – stated: 'We have the discretion to retain it if we do so'. The decision not to waive privilege has prompted the Senate to criticise PwC's approach as illustrative of its challenging interaction.

The sixth issue is ongoing opposition in the federal Parliament, which can compel and penalise witnesses for contempt. The media's heightened influence further complicates matters, as the Parliament denounces PwC Australia's ongoing reform efforts as superficial gestures without dedication to transformation.[29]

24. Mizen and Shanahan, 2024
25. Tadros and Chenoweth, 2023a
26. Tadros and Chenoweth, 2023b
27. Smith and Tadros, 2024
28. Tadros, 2024b
29. Tadros, 2024a

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The CEO of PwC has emphasised the significance of addressing the ongoing ramifications of the tax scandal that has impacted these prominent Big Four partnerships. He acknowledges that rebuilding its tarnished image will be lengthy: 'We are confident that we are now in a strong position to embark on a new phase, concentrate on the future, and drive the company forward with a new strategy'.[30]

The AFP is conducting an inquiry, while the Tax Practitioners Board has initiated up to nine investigations, and Chartered Accountants Australia and New Zealand state they are conducting investigations. Any of these investigations could potentially draw PwC Australia back into the scandal.[31]

We now turn to the research methods and the case study aspect of our paper, which draws on the PwC experience to discuss organisational responses and so-called ethical improvements following the disclosure of damaging information.

3. Research methods

This article employs a qualitative research design based on a case study of PwC Australia to shed light on organisational responses and ethical improvements following the disclosure of damaging information. We apply content analysis to data drawn from investigative journalists' work, academic research and the reports from the Senate inquiries. Unlike scientists, theories, techniques, literature or presentation styles do not constrain investigative journalists. Meyer suggests that investigative journalism is a discipline encouraging journalists to apply principles to their news-gathering and reporting practices.[32] Investigative journalists have embraced this concept and are devoted to uncovering lesser-known facts with significant social and economic implications that academic researchers might have overlooked.[33] Journalists invest substantial time in research, consulting diverse sources, formulating precise questions, adopting new methods and conducting thorough investigations.[34] Investigative reporting involves gathering, analysing and confirming evidence from primary and secondary sources. Like academics, investigative journalists seek to uncover facts, although their approaches to achieving this goal differ. Investigative journalists actively pursue groundbreaking stories that reveal previously unknown social and economic consequences by undertaking thorough research, consulting with various sources, making comprehensive and targeted inquiries and employing innovative methodologies. Central to investigative journalism is collecting, analysing and validating evidence from primary sources. Investigative reports are not published until they have passed legal scrutiny.

The case under study is the PwC Australia scandal (2013–2024). It is an exceptional case due to the many issues involved and the significant media attention it received. According to Stolowy et al.,[35] examining extreme cases like that of PwC Australia, similar to the LuxLeaks scandal, can provide deeper insights into underlying mechanisms that may not be as apparent in more common, less publicised contexts. This scandal sheds light on the organisation's response strategies. We focus on newspapers and other public media because, given the recent and emerging nature of the revelations about consulting firms, much of the available information that investigative journalists and a parliamentary inquiry under parliamentary privileges have uncovered.

We use three code levels to analyse the data outlined in following Table 2.

30. Mizen and Shanahan, 2024
31. Ibid.
32. Meyer, 2022
33. www.ICIJ.org
34. Pupovac et al. 2024
35. Stolowy et al., 2014, p. 360

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TABLE 2: Levels of code used to analyse data

A	First-order code
A.1	International dimensions of the tax affair
A.2	Relationship between PwC Global and PwC Australia
A.3	PCAOB imposed penalty on PwC Australia
B	Second-order code
B.1	Regulation of the Big Four in Australia
B.2	PwC and structural split
C	Aggregated dimensions
C.1	Why is this important?

The following sections provides an empirical analysis of the PwC tax affair, focusing on an international dimension.

4. Results

4.1 International dimensions of the PwC tax affair

The first level of the First-order code, theme *A.1 International dimensions of the tax affair*, examines the involvement of overseas PwC partners as determined from the emails released with names retracted. PwC has tried to neutralise any links to PwC partners outside Australia. The ambiguity regarding the Australian partners implicated in the unauthorised sharing and profiting from confidential government data extends to the involvement of overseas PwC partners. Despite the limited disclosure, as indicated by the redacted emails, it is evident that numerous email addresses of PwC personnel located abroad were part of the communications.[36]

In June 2023, the Senate Committee had limited information about the persons responsible for misusing confidential government information beyond Collins. The limitation was due to the opaque information that PwC Australia itself was willing to provide – they relied on the 'one bad apple' narrative. Indeed, PwC Australia provided the Senate Committee and the media with several names but not with any related information about the nature or extent of these individuals' involvement in the PwC tax matter. At the time, PwC Australia indicated that this approach intended to protect the reputation of other PwC employees. However, the Clerk of the Senate noted in his advice to Senator O'Neill on June 6 2023, that

> **'It seems that PwC is best placed to minimise the reputational damage likely to flow to staff it says were only peripherally involved, by publishing accurate information about their involvement, rather than leaving it to the Senate Committee or others to pick through available information.'**[37]

At the Senate Committee's public hearing in October 2023, it was noted that PwC Global commissioned law firm Linklaters to investigate the flow of emails from Australia to various countries worldwide. Linklaters issued a legal summary press release report but not the full report. The Linklater report determined that the PwC Australia partners' actions did not align with PwC's Global Tax Code of Conduct. The report summary also criticises PwC's interpretation of legal professional privilege, evidenced when it sought to use the concept to block the ATO from accessing specific documents concerning its MAAL advice in 2016. PwC contended that legal professionals oversaw the relevant projects outlined in PwC's engagement letters, potentially enabling clients to assert legal professional privilege over their correspondence. PwC Global also relies on legal professional privilege to stop the release of Linklater reports in Australia. Despite demands from the Senate to release the report, the law firm and PwC Australia have chosen not to disclose it.

36. Lucas and Guthrie, 2024
37. SFPARC Report 2, 1.10

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CEO Burrowes confirmed that the Linklater report indicated that six PwC partners overseas should have questioned the origin and potential confidentiality of the information they received. At the time, Burrowes could not advise those partners' locations nor whether they had been disciplined or penalised. In answer to questions on notice, PwC Australia suggested that it had sought a copy of the legal advice. However, it had not received the document. PwC Australia also noted that advice received by PwC Global is privileged and confidential, and PwC Global does not intend to release that advice.

Additionally, Senator O'Neill remarked that by disseminating the tax information, PwC's objective was not solely to benefit its Australian clientele but also to exert influence on global policy formation concerning these issues:

> **'It does appear to us that the communications from PwC Australia to PwC internationally blended issues around the private and the public consultation so that the firm could internationally have a significant influence on the shape and size of the base erosion and profit-shifting reforms that the G20 and the OECD were leading.'**[38]

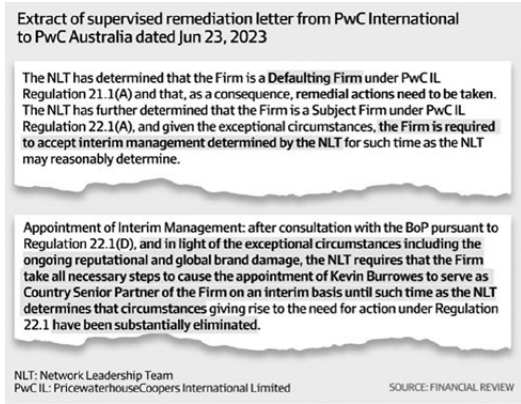
The AFP further verified that its inquiry into the PwC incident, which the Treasury forwarded in May 2023 and identified as Operation Alesia, had national and global dimensions.

4.2 Relationship between PwC Global and PwC Australia

This section explores the *A.2 Relationship between PwC Global and PwC Australia*, focusing on PwC Global's efforts to manage its reputation and rebuild confidence in PwC Australia. PwC Global is a private company in England and Wales limited by guarantee. According to its financial records, the company had no revenue or expenses after reimbursement, resulting in a neutral financial outcome. Without any employees, member firms cover PwC Global's operational costs. As specified in its Memorandum of Association, the organisation significantly controls and influences network firms. Notably, an Australian PwC partner serves as a director of PwC Global.

PwC Global classified PwC Australia as a defaulting firm under its regulations in June 2023. Consequently, PwC Australia was placed under supervised remediation and directed to appoint Burrowes as CEO. Burrowes assumed the role on 25 June 2023, extending his tenure until 2026.[39] Burrowes assumed the position of CEO at PwC Australia, reporting to the board of partners at PwC Australia rather than directly to PwC Global, shortly after receiving a letter from PwC Global in June. He resigned from his previous role as the firm's global client and industry leader. PwC continues to be under the 'supervised remediation' of the global firm.[40] Figure 1 indicates extracts from the supervised remediation letter from PwC Global dated 12 June 2023.

FIGURE 1


Extract of supervised remediation letter from PwC International to PwC Australia dated Jun 23, 2023

The NLT has determined that the Firm is a Defaulting Firm under PwC IL Regulation 21.1(A) and that, as a consequence, remedial actions need to be taken. The NLT has further determined that the Firm is a Subject Firm under PwC IL Regulation 22.1(A), and given the exceptional circumstances, the Firm is required to accept interim management determined by the NLT for such time as the NLT may reasonably determine.

Appointment of Interim Management: after consultation with the BoP pursuant to Regulation 22.1(D), and in light of the exceptional circumstances including the ongoing reputational and global brand damage, the NLT requires that the Firm take all necessary steps to cause the appointment of Kevin Burrowes to serve as Country Senior Partner of the Firm on an interim basis until such time as the NLT determines that circumstances giving rise to the need for action under Regulation 22.1 have been substantially eliminated.

NLT: Network Leadership Team
PwC IL: PricewaterhouseCoopers International Limited

SOURCE: FINANCIAL REVIEW

Source: AFR[41]

38. SFPARC Report 2, 1
39. Tadros, 2024b
40. Tadros, 2024b
41. Ibid.

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According to PwC Australia Chairman Carroll, it is entirely suitable for the local firm to collaborate with PwC Global:

> **'Being part of the PwC global network, it is appropriate for us to cooperate with our global counterparts on our remediation efforts and trust rebuilding … We are diligently focusing on the essential measures required to enhance our governance, culture, and accountability to regain trust in our firm for the benefit of our employees and partners.'**[42]

Acting interim CEO of PwC Australia from May to July 2023, Stubbins confirmed that she received a call from the Chair of PwC Global. During the conversation, he expressed his intention to recommend Burrowes as the appointment by PwC Australia, to replace her.[43]

4.3 The US PCAOB penalty imposed on PwC Australia

This section explores the *A.3 PCAOB imposed penalty on PwC Australia*. Guthrie et al.[44] argues that PwC Australia had to report the leaks because they affected PwC's global partners, especially partners in the US: 'This is a big deal because it'll affect the reputation of PwC in the US'. It took PwC over 12 months to report this event, which led to PwC being fined A$1 million by the PCAOB.

Established by the US Congress in 2002 in response to the inadequacy of self-regulation within the auditing industry, the PCAOB oversees auditing firms and has the authority to impose penalties for avoidance, including significant monetary fines and restrictions on a firm's capacity to audit publicly traded companies. Additionally, the board has substantial enforcement capabilities, enabling it to compel firms to provide documentation and data as needed.

The PCAOB fine marks the first time a foreign regulator has taken any action on this issue and is part of the ongoing fallout from the tax leaks scandal. The PCAOB's disciplinary order stated that PwC Australia violated rules and quality control standards by not promptly reporting proceedings initiated by the TPB. Failure to disclose required information is unacceptable, and the PCAOB will hold firms accountable, according to the PCAOB chair.[45] PwC Australia and other major auditing firms have various reporting obligations to the PCAOB due to their auditing responsibilities for US-based companies like Westpac and Woodside Energy Group. The PCAOB instructed PwC Australia to improve compliance with regulatory standards.

The fact that a US auditing regulator examined PwC Australia's tax leak scandal is significant in several ways.[46] First, an order issued by the PCAOB against the Australian network firm sheds details on the TPB process. PwC Australia's failure to report to the PCAOB and clarify the situation to the Senate processes holds a series of lessons for public and private sector entities. Second, the second Senate Committee report[47] condemns PwC Global for its refusal to cooperate with an Australian parliamentary request to provide a copy of an investigation conducted to address the tax leaks controversy in Australia. PwC has invoked legal professional privilege regarding the report, which exonerated international partners of any avoidance

42. Tadros, 2024b
43. Kristin Stubbins, private capacity, Parliamentary Joint Committee on Corporations and Financial Services, Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry. *Proof Committee Hansard*, 5 March 2024, p. 24
44. Guthrie et al., 2023a
45. PCAOB, 2024
46. PCAOB, 2024; Ravlic, 2024b
47. SFPARC Report 2, 1

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while asserting that they shared all pertinent details from the report with the authorities:[48]

> **'The failure of PwC to be completely open and honest as per the Senate Committee's recommendations in its first report is reflective of PwC's failure to change genuinely. The Senate Committee does not see how PwC can recover its reputation while it continues to cover up because the two are incompatible.'**

Indeed, as Senator O'Neill emphasised in the title of Report 2 from the Senate enquiry, 'the cover-up worsens the crime'.[49]

In Report 2, Senator O'Neill expressed disappointment that much is still unknown about the actual avoidance by PwC and its partners amid the efforts by the firm's domestic and global leadership to minimise their reputational damage:

> **'The report highlights the immense failures of leadership, professionalism and ethics that enabled the tax leaks scandal to occur in the first place and the gross failures of professional accountability, which saw it go unacknowledged and unpunished for so long. It will not be easy for PwC to erase the reputational and financial damage that the firm has deservedly suffered due to its avoidance is not easily erased despite the firm's attempts to cauterise its Australian operations from its global network.'**[50]

Report 2 found that PwC Australia's leadership consistently failed to take responsibility for the problems within the organisation that led to this situation.[51] The Senate Committee acknowledged that PwC Australia leaders appeared for questioning but was 'disappointed at the lack of substantive answers'. Another inquiry member, Senator Pocock, said the firm's refusal to share the report remains a stain on the firm's reputation in Australia and globally:

> **'What we are looking at here is institutional failure that requires root-and-branch reform. Australian taxpayers deserve better from their government, and I hope that when our final report comes out, the recommendations will be acted upon for the benefit of all Australians.'**[52]

In March 2024, PwC Australia rejected claims that it was not cooperating with parliamentary inquiries and multiple investigations:

> **'While we note the desire for the Senate to have access to legal advice received by others in the PwC network, we are mindful of the basic legal right of legal professional privilege that operates in many jurisdictions, including in Australia.'**[53]

Other fallouts include the Australian Department of Finance no longer using PwC for government advisory work. The repercussions have been far-reaching, ultimately leading to a fire sale of the entire public sector consulting business to private equity investor Allegro Funds for A$1, destroying a business previously earning A$250 million in revenue. Allegro Funds intends to inject A$100 million into the new consulting firm, rebranded Scyne Advisory. The potential worth of this venture was estimated to be as high as A$1 billion.[54]

48. SFPARC Report 2, 1
49. SFPARC Report 2, 1
50. Belot, 2024b
51. SFPARC Report 2, 1
52. Belot, 2024b
53. Belot, 2024a
54. Tadros, 2023b

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4.4 Regulating the Big Four in Australia

This section explores *B.1 Regulation of the Big Four in Australia*. Here, we analyse submissions to the Senate Committee inquiry. Table 3 provides the number of submissions and the name of the person or body submitting, which we then categorise according to the regulatory theme of 'carrots and sticks'.

The phrase 'carrots and sticks' is a metaphor for using a combination of carrot reward (e.g., self-managed ethics and accountability issues) and stick punishment (e.g., regulation, fines and imprisonment) to induce a desired behaviour. In politics, 'carrots or sticks' sometimes refers to soft and hard power. The 'carrots and sticks' philosophy that undergirds the organisational guidelines rests on the realisation that corporations can, and should, be incentivised to self-police. Concerning compliance and ethics, the organisational guidelines have ushered in an unprecedented era of so-called corporate responsibility. 'Carrot or stick' involves utilising rewards and penalties to shape behaviour. When applied in politics, it signifies employing soft power (carrot) and hard power (stick) to attain specific goals or results. This strategy is commonly used across scenarios to encourage preferred actions or discourage undesirable behaviours.

The discussion analysis below elaborates on using the 'carrot and stick' approach as a metaphor for combining incentives and penalties to influence behaviour, particularly in the Big Four responsibility and ethics. It also highlights the application of this concept in politics, where it signifies the use of soft power (carrot) and hard power (stick) to achieve desired outcomes. Governments can employ this versatile strategy to promote positive actions or deter negative behaviours in various scenarios.

Given the varied risks, doing so helps address whether the current regulatory approach is sufficient for these Big Four partnerships. It also weighs the costs of regulation and the benefits of quality audit and consulting services.

TABLE 3: Submissions to the Senate Committee inquiry

No. of submissions	Type	Name of person/ body submitting
1	A	Samuel (2023)
6	XA	Bant (2023a, b)
10	A	The Institute of Internal Auditors Australia (2023)
13	XA	Larson (2023)
25	A	KPMG Australia (2023)
28	X	Tax Justice Network (2023)
29	A	Australian Shareholders' Association (2023)
30	A	Chartered Accountants Australia and New Zealand (2023)
38	A	BDO Group Holdings Limited (2023)
48	X	Community and Public Sector Union (2023)
49	A	ASIC (2023)
50	A	Treasury (2023)
52	X	Fels (2023)

X = sticks A= carrots

Organisations or individuals that support a carrot approach (i.e., A) are primarily involved in the self-regulation of the Big Four. For instance, the Treasury believes regulation should be the basis of the behavioural regulatory framework:

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> **'For instance, a well-targeted approach to regulation would consider the drivers of behaviour for the affected population. For these firms, some drivers include governance and internal oversight of firms' operations and the degree to which conflicts of interest can be managed effectively'.**[55]

The Treasury provided principles for evaluating audit, accounting and consulting industry regulations in their submission. They use these principles to assess the need for intervention in this sector. These principles include transparency, accountability, integrity and the ability to monitor and sanction avoidance and poor performance in professional services firms. These principles aim to ensure that the industry operates in a manner that is ethical, accountable and in the public interest. They also emphasise the importance of accountability mechanisms in monitoring and sanctioning avoidance and poor performance. The overarching goal is to ensure that professional services firms adhere to ethical standards and provide high-quality services.[56]

Bant[57] and others take a hybrid approach, suggesting a combination of carrots and sticks to address organisational issues, advocating for a cultural shift, including regulatory oversight to identify an organisation's intentions. The emphasis is on implementing accountability measures to oversee and rectify avoidance and poor performance in professional service firms. By introducing the concept of systems intentionality, which involves interpreting an organisation's intentions through actions rather than mere statements, Bant underscores the necessity of finding a balance between regulatory objectives and businesses' operational freedom.[58]

The discussion also touches on the Treasury's criteria for evaluating the regulation of the audit, accounting and consulting sectors, aiming to weigh the pros and cons of regulation while managing different risks. Bant[59] takes a stick approach, stressing the need for governmental intervention and regulation in these sectors to ensure accountability and prevent avoidance and underperformance. Similarly, a stick approach is taken by others, including the Community and Public Sector Union,[60] Fels[61] and Guthrie et al.,[62] who advocate for separating audit from consulting to remove the possibility of actual or perceived conflict of interest by the Big Four accounting partnerships.

4.5 PwC and a structural split

This section explores the theme *B.2 PwC and a structural split*. It focuses on the conflict of interest between the auditing arm and consulting inherent in these Big Four accounting partnerships.

As outlined above, PwC Australia divested its entire government consulting division for a nominal fee of $1. Additionally, the Treasury referred the scandal to the AFP and the National Anti-Corruption Commission for investigation in May 2023. Evidence presented during the Senate Committee inquiry in October 2023, as documented in various publications and parliamentary records, indicated the existence of various conflicts of interest within the organisation. For instance, the plan to sell off the consulting arm in 2018, known as Project Kookaburra, points to PwC's awareness of the significant conflicts

55. Treasury, 2023, p. 50
56. Treasury, 2023, p. 50
57. Bant, 2023a, b
58. Bant, 2023a, b
59. Bant, 2023a
60. Union, 2023
61. Fels, 2023
62. Guthrie et al., 2023b

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between its auditing and consulting practices. Former CEO of PwC Australia, Luke Sayers, stated he was troubled by these conflicts and concerned about audit quality, thus spearheaded the covert Project Kookaburra initiative to offload the consulting division for $1 billion.[63] However, during this period, the partnership was advocating for the effectiveness of a multidisciplinary accounting and consulting firm in ensuring audit quality in Australia, a stance shared during the 2019 joint inquiry into audit quality.[64] Sayers stated that the firm's executive spent about 12 months working through Project Kookaburra.[65]

The proposal, dismissed by PwC's Global leadership in 2019, aimed to utilise a portion of the funds raised to settle the firm's retired partner payment scheme, thus resolving the conflict arising from former PwC partners receiving continuous payments while holding roles in corporate and public sectors, including regulatory positions.

Guthrie et al.'s submission to the inquiry stated:

> 'Our central proposition was simple: The Big Four partnerships are not adequately regulated. The regulations in place pertain to the individual members of a professional organisation (such as a registered accountant, auditor, or tax agent). Therefore, Australian audit practitioners are severely over-reliant on self-regulation regarding their codes of conduct and ethical practices. Our principal recommendation is that the Big Four accounting partnerships in Australia use a structural split at the start of 2025 in the audit and consulting parts of the firm. Instead of an operational split, a "structural split" is needed. Under this, audit firms would do audit only, and neither the firms nor their associates would be permitted to sell any consultancy to audit clients.'[66]

The Senate Committee's second report acknowledged that PwC Australia had overhauled its internal governance structures but described the changes as largely symbolic. It accused the firm of making no genuine effort to thoroughly investigate and address the issues.

5. Postscript at the time of going to press

The Australian Government and the Treasury released a consulting paper for public discussion. The consultation paper on regulating accounting, auditing and consulting firms in Australia, given the government's response to overseeing the Big Four firms and consultants following a year of parliamentary investigations and journal scrutiny.[67]

In summary, the consultation paper outlines several key points. First, the significant accounting firms known as the Big Four might face requirements to reduce the number of partners and integrate their consulting divisions in response to heightened governance standards following the PwC tax leaks controversy. In a consultation document released by the Treasury, potential issues were highlighted regarding the sharing of profits between audit and consulting partners, creating a risk of auditors prioritising client satisfaction over the quality of audits, which could impact market trust. Second, the proposal to enforce lower limits on partnership numbers or transition to corporate status would represent a substantial transformation for the Big Four firms, potentially setting a global example in holding these firms accountable. The Treasury raised doubts about the Big Four's ability to self-regulate, suggesting that the current self-regulatory mechanisms reliant on professional bodies may lack the necessary authority to compel compliance. The government outlined 17 critical areas for input and

63. Tadros, 2023c
64. https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing
65. Tadros, 2023c
66. Guthrie et al., 2023b
67. Treasury, 2024

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assessment, including evaluating whether PwC, KPMG, EY and Deloitte partnership structures are adequate for self-governance. A critical aspect of this evaluation is whether the current partnership ceiling of 1,000 for accounting firms is excessive and if the partnership model is still suitable, given the 'economic significance' of these major firms. EY has 760 partners, KPMG around 713, PwC approximately 650 (having lost around 300 partners in the last two years), and Deloitte surpasses 1,000 partners, with only about 537 holding equity stakes.

6. Conclusion

Now we discuss the third theme, *C.1 Why is this important?*

The primary global audit market had essentially halved through consolidation since the mid-1980s when eight large international audit firms existed. In the wake of the Enron scandal, its auditor, Arthur Andersen, was charged with shredding documents relevant to the investigations into the energy company. The revelation decimated the company's books and wound up in 2002. Since then, the market has had four global majors: Deloitte, PwC, Ernst & Young and KPMG. Between them, these firms have almost complete control of the market for audits of major companies worldwide. In the recent Senate Committee inquiry, Fels provided evidence that audit plays a critical role in the economy and should not be unnecessarily compromised.[68] The fact that the Big Four provide consultancy, advisory, taxation and other services threatens to compromise the quality of audits, and legislation should prohibit this situation.

The PwC Australa scandal illustrates that relying on the Big Four for self-regulation is not viable. Legislation also falls short due to loopholes and enforcement challenges, mainly when regulators are not proactive. The conflict of interest, both real and perceived, arises when an auditing firm also engages in consulting services for itself or others. In a previous 2019 audit firms inquiry, Guthrie noted that conflicts of interest are inherent in providing independent auditing services while being paid consistently by the audited firm.[69] Legislation is needed to help avoid additional conflicts and prevent auditors from compromising their independence. Guthrie highlighted the complexities, risks, expenses and obstacles associated with suggested compromise strategies, such as internal function separation within a single firm.[70] Legislation may never eliminate conflicts of interest, and even when minimised, they incur high operational costs, requiring substantial external oversight for compliance assurance.[71]

The Big Four, as secretive partnerships rather than companies, operate without the obligation to disclose the sources of their revenue, despite being among the world's most influential private entities. They generate most of their revenue growth from government contracts and services to large multinational corporations. In addition to offering consulting services, these firms assist multinational corporations in minimising their tax obligations and act as auditors overseeing the same companies.[72] The recent PwC Australian tax scandal has revived discussions surrounding the potential breakup of such massive partnerships, aiming to address the conflicts of interest between auditors, accountants and consultants. This longstanding debate has persisted for decades.

Elected officials and decision-makers have been privy to various viewpoints regarding the potential

68. Fels, 2023
69. Guthrie, 2019
70. Ibid.
71. Fels and Guthrie, 2023
72. Lucas and Guthrie, 2024

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separation of the Big Four accounting firms. Despite this, they have proceeded cautiously, finding the arguments in favour of such a significant change lacking. The primary rationale for advocating a split is the belief that audits should play a crucial role in upholding market integrity and that conflicts of interest that stem from audit firms also providing consulting services should not compromise audit quality. It is paradoxical that while we expect audits to adhere to stringent standards, conduct thorough examinations and identify conflicts of interest for those under audit, auditors encounter integrity challenges due to potential conflicts of interest. The balance between these conflicting arguments supporting the current status quo may shift in light of recent scandals involving PwC and other players in the consulting industry. Trust in the Big Four firms is dwindling, as they are perceived to prioritise profits over integrity. Confidence in the integrity of audit procedures may diminish if these scandals further erode trust in the Big Four. Financial information is crucial for the market system that relies on auditors carrying out their responsibilities impartially, even if it means risking losing consulting business if their audit findings are unwelcome.

However, Ravlic[73] reports that Senator O'Neill, heading several Australian Parliamentary inquiries into the consulting industry, said there are signs of sector-wide behavioural and business issues that need addressing:

> **'What we've learned in the time since the PwC scandal emerged is that this is not just one isolated incident but the result of years of moral and ethical myopia on the part of consulting firms and their leaders […] These companies have placed their own profitability and lucrative financial returns ahead of the public good.'**

O'Neill emphasised the crucial role that major accounting firms hold in Australia's financial markets. We expect these firms, especially those that derive significant profits from government contracts, to anticipate calls from the public for transparency and accountability. Given their substantial influence, regulatory bodies, the public and the Parliament must hold these partnerships accountable for their actions.

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73. Ravlic, 2024a

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