Review of Governance, Culture and Accountability at PwC Australia

AUGUST 2023

Foreword

Until early 2023, PwC Australia was seen as a very successful, progressive and respected enterprise.

The firm employed approximately 10,000 people, with over 900 partners, both numbers having nearly doubled in less than a decade.

In FY22 revenues were around $3 billion, up 17% on the prior year,[1] cash flow and bonuses were strong, and partner wealth continued on an increasing trend along with partner numbers. Non-financial measures of success, such as those relating to diversity and inclusion, employee policies, and social impact, were also areas of strength for the firm.

PwC Australia was a magnet for new graduates, with a reputation for its people being hard working, innovative and client focused.

Consistently good commercial results over a decade, which included the difficult COVID period, reinforced the view that the firm's strategy was robust and its implementation would continue to produce superior outcomes – financial and non-financial.

Yet by May 2023 PwC was in serious trouble.

The Tax Practitioners Board (**TPB**) had found that PwC Australia had failed to have in place adequate arrangements to manage conflicts of interest in relation to its tax practice. According to the TPB, such conflicts arose due to the potential market advantage of having knowledge of confidential information which could be utilised to advance the position of PwC Australia's existing taxation clients as well as marketing its services to attract new clients.

A senior tax partner had been sanctioned by the TPB and his licence to practice withheld for two years.

A number of inquiries followed, led by the Senate Inquiry initiated in March 2023. The Senate Inquiry has focused, in part, upon the sharing of confidential information about government plans to combat multinational tax avoidance beginning in 2014. A report concluded that PwC Australia had "engaged in a deliberate strategy over many years to cover up the breach of confidentiality and the plan by PwC personnel to monetise it".[2]

In May 2023, the Department of Finance, representing all federal government departments, effectively banned PwC Australia from winning new federal government contracts and the firm began a process of selling its government consulting business to a private equity firm – a business reportedly involving around 1,600 PwC personnel and more than $500 million in annual revenues.

Governments (Federal, State and local), clients, PwC Australia partners and staff, media and the general public all looked for answers to the following questions:

- How did the breaches of confidentiality and conflicts happen and persist uncorrected for some years?
- Have responsible parties been identified and disciplined?
- What processes are now in place to minimise the possibility of any repeat of this experience?

[1] PwC Australia's FY23 revenue was $3.4 billion, up 11% on the prior year.

[2] The Senate Finance and Public Administration References Committee. (2023, June). *PwC: A calculated breach of trust*. (page 15). https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/Consultingservices/PwC_Report

To help answer these questions, several workstreams were initiated by PwC Australia, including this Review which focuses upon frameworks and practices relating to governance, culture and accountability that currently operate within the firm.

Specifically, as the Independent Expert, my task has been to:

- evaluate the strengths and shortcomings in PwC Australia's governance, culture and accountability frameworks and practices;
- identify gaps in governance, culture and accountability; and
- make recommendations as to how to address the findings.

My task has not been to assess how the breaches occurred and persisted uncorrected for such an extended period or whether appropriate disciplinary actions have been taken. These are the specific tasks of other workstreams and reviews initiated by PwC Australia, which will separately report as their work is completed.

However, it is my view that the shortcomings in governance, culture and accountability identified in this report may have been contributing factors to what has become known as the 'TPB matters'. It is also my view that the recommendations in this report cover a series of actions that, if implemented by PwC Australia, may mitigate the risk of such failures occurring in the future.

Dr ZE Switkowski AO
Independent Expert

12 September 2023

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Executive Summary

Executive Summary

Erosion of trust

Trust is a recurring theme in this Review.

PwC Australia earned the trust of governments, regulators, clients and the wider community over many decades. However, the firm is now in the unenviable position of navigating the brutal unravelling of that trust. It is also facing into the challenge of re-establishing trust internally, including among partners.

There may not be a simple answer as to why the firm finds itself in this situation. However, the examination of its governance, culture and accountability frameworks, arrangements and practices has been illuminating.

Consistent with the terms of reference, the Review assessed strengths and shortcomings in governance, culture and accountability existing at the commencement of the Review. It developed observations and findings and has formulated recommendations for how PwC Australia may address the current gaps and shortcomings. These are detailed in the chapters that follow.

Importantly, the Review focused on current state. It was specifically not tasked with undertaking an analysis of the cause of the now infamous breach of confidentiality by a tax partner and various failures that followed, or with determining accountability for any of those breaches or failures. However, these events, collectively referred to as the 'TPB matters', are instructive. The observations and findings relating to current shortcomings may have been contributing factors to what occurred in the past. Likewise, the recommendations set out in this report are actions that may mitigate the risk of such failures occurring in the future.

Key shortcomings

The Review identified a number of key shortcomings relating to governance, culture and accountability at PwC Australia that have arisen from the accumulation of poor practices, which went unexamined and uncorrected for many years.
The following themes are reflected in the findings in this report:

1. Lack of independence and external 'voices' within the ultimate governing body
2. Excessive power conferred on the CEO
3. Disproportionate focus on revenue growth and market leadership as the strategic imperatives
4. Decentralised business model without sufficient visibility of the enterprise view
5. Complexity and fragmentation contributing to ineffective structures and processes
6. Unclear responsibilities and accountabilities creating gaps and risks
7. Overly collegial culture inhibiting constructive challenge

1 Lack of independence and external 'voices' within the ultimate governing body

Members of PwC Australia's Board of Partners are all partners of the firm. Members typically have many years of experience with the firm. Such partners, sometimes referred to as 'lifers', have built long term relationships and reciprocal obligations. These dynamics likely lead to very different conversations at the Board table than would occur among independent non-executive members who would be expected to be less fettered by legacy arrangements and to bring valuable external perspectives and scrutiny.

In addition, some members of the Board of Partners are, or perceive themselves to be, more 'junior' in stature than partners in senior leadership roles, or the CEO. The remuneration outcomes and career arc of any partner, including members of the Board of Partners, may be influenced by more 'senior' partners across the firm. Independent thinking may not always be rewarded.

These complexities and structural circularities at PwC Australia at the partnership level, create impediments to the willingness of the Board of Partners to question and challenge the CEO and senior leadership. This in turn undermines the effectiveness of governance and oversight.

Inherent in a partnership model is a lack of the hierarchy found more commonly in a corporate structure. A hierarchy more directly translates to reporting lines and a sense of the right to question. Within a partnership, in a sense, every partner is equally in charge. Notwithstanding this, partnership is a familiar and effective model in many professional services firms around the world. Flaws in governance at PwC Australia are not necessarily attributable to the organisational model but rather the lack of independent, external 'voices' involved in providing challenge and oversight.

2 Excessive power conferred on the CEO

At PwC Australia, the CEO is elected by the partnership. The CEO is not appointed, or able to be removed as CEO, by the Board of Partners. The CEO has a strong mandate, being elected following a presidential-style campaign and, other than maintaining popularity, has relatively unchecked authority. The CEO is not perceived to be accountable to the Board.

Culturally, the generally accepted view is that the CEO "runs the show". During a long period of commercial success, this has translated to a reluctance of partners to challenge the CEO, even at senior leadership levels. It has also led to heightened (potentially even misplaced) trust in the CEO. A powerful CEO can also contribute to "fluid" management practices and to decisions being made 'out of the room' or overridden. The overly collegial culture at PwC Australia has tended to amplify the power of the CEO.

3 Disproportionate focus on revenue growth and market leadership as the strategic imperatives

In recent years, there has been considerable emphasis on firm growth and revenue. Partners enjoyed prosperity over many years under this strategy. However, with the benefit of hindsight, few partners now defend the legitimacy of this focus.

The aggressive growth agenda overshadowed and occurred at the expense of the firm's values and purpose. The focus on "whatever it takes" seems, at times, to have contributed to integrity failures – some partners did the wrong thing, while others failed to do the right thing by overlooking or minimising the significance of questionable behaviours.

The strategy also appears to have led to lower prioritisation of initiatives and capacity-building of enabling function cost-centres. These were perceived as less valuable and "getting in the way" of client-facing and revenue generating activities. While these decisions could be said to be indicative of a high-risk appetite, PwC Australia has overall demonstrated a lower risk maturity than would be ideal for a firm of its size and complexity.

4 Decentralised business model without sufficient visibility of the enterprise view

The mantra of building "three world-class businesses" was a common refrain. The pursuit of the growth agenda was executed through a decentralised operating model, and the empowerment of three business lines – Consulting, Financial Advisory and Assurance – for decision-making and risk management.

Although the CEO retained significant power, there was an intentional pivot away from an enterprise focus. There was also a failure to maintain capability and capacity at the centre for oversight and decision-making. Decisions were business-led with a tendency for issues to be managed in silos. Without the counter-balance of the centre, the enterprise-wide view was lost. This continues to impact the effectiveness of governance and risk management.

5 Complexity and fragmentation contributing to ineffective structures and processes

There has been a proliferation of policies and processes without clear connectivity – the cumulative effect of tactical responses to implementing a variety of standards and requirements.

There is also general confusion as to the scope and meaning of 'conduct risk' and 'compliance risk', and how and by whom various conduct and compliance issues are managed. Data is collected in 'pockets' across the firm with limited mechanisms for aggregating that data to enable a central view. Fragmentation of data is problematic for early detection and proper management of issues. It also creates challenges for effective decision-making and oversight. Fundamentally, effective management of conflicts of interest requires a whole of firm view, and this remains a work in progress.

PwC Australia's glossy PowerPoint presentations sometimes give a false impression of comprehensive and disciplined structures and processes when the reality is much less tidy.

6 Unclear responsibilities and accountabilities creating gaps and risks

PwC Australia has a plethora of forums, committees and working groups, as well as matrix-like notional reporting lines between partners, in part reflecting its broad service offering and geographical reach. 'Dual-hatting' of partners with client-facing as well as internal roles, including key responsibilities for risk, is common.

However, responsibilities and accountabilities are generally not well defined (or necessarily documented) and connections, delegations and escalations are frequently not clear – for partners, for enterprise-level forums or for Lines of Service.

Partners sometimes seem to have misplaced confidence that matters are in hand, and trust there is coverage, but multiple, unclear and blurred accountabilities create gaps, rather than overlaps.

7 Overly collegial culture inhibiting constructive challenge

Historically at PwC Australia, partners have built and relied upon a high degree of trust in each other, with a preference for maintaining harmony. In practice there is not a lot of constructive dissent, with relationships and loyalty being key to career progression. In recent years, the emphasis on growth coupled with high levels of trust and reluctance to challenge created blind spots. It may also have contributed to a willingness of partners to tolerate poor behaviours of 'rainmakers'. Against this backdrop, the overplaying of collegiality creates risk.

PwC Australia partners and staff are high achievers. This tends to be associated with a lack of comfort in accepting the fallibility of humans, and a reluctance to reflect on what is not working well. PwC Australia exhibits a 'good news' culture at the enterprise-level where "good news gets communicated and bad news gets held back". The Review found there is a general hesitancy to delve into uncomfortable conversations, to learn from mistakes and to be prepared to hold others to account.

For partners of PwC Australia, events of the past several months are no doubt a reminder that, in a partnership of the firm's size and complexity, trust or an assumption that matters are "being managed" is not enough. Trust cannot be a substitute for good governance, clear and robust structures and processes, or a preparedness to have uncomfortable conversations when required.

Taken together, the key shortcomings may help explain why the firm has been slow to act in its rapidly escalating crisis of trust, why poor behaviours were overlooked or tolerated (and for so long), and why interactions with certain regulatory bodies in connection with the 'TPB matters' appear in hindsight to have been overly legalistic and lacking in transparency.

In summary, the Review observed that PwC Australia has, at important times, been too slow to respond to mistakes and, as a result, found itself at the mercy of the public narrative on trust.

Restoring trust

PwC Australia has been aware of many of these shortcomings, sometimes for an extended period. Previous internal reviews have identified similar weaknesses and improvement opportunities. PwC Australia has itself also identified remedial actions for some gaps, so it is hoped that it will find few real surprises in the recommendations in this report.

The firm should also be well aware of what needs to happen to arrest declining internal and external confidence, and to restore trust. Indeed, PwC Australia is comprised of many honest, clever and committed individuals in the business of advising other organisations about what 'good' looks like across governance, culture and accountability frameworks and practices. Moreover, some parts of PwC Australia – notably the Assurance business – appear substantially to model best practice. The firm should seek to leverage its internal capability and intellectual property, and look to these strengths as it rebuilds.

The Review has made specific recommendations to address the gaps and shortcomings, which are consolidated in Section D. In addressing the recommendations, several (perhaps somewhat obvious) principles should be borne in mind:

First, the firm's growth aspirations must be reconciled with the need to prioritise initiatives to restore trust, with both internal and external stakeholders. In particular, delivering short term financial results cannot be the primary focus. The Independent Expert acknowledges the intention of senior leadership of PwC Australia, and leaders across the PwC global network, to rebalance priorities, and the work that is already underway.

Second, the Independent Expert recognises that many of the recommendations will necessarily take time to implement. For the next year and beyond PwC Australia will be transforming in an environment that is far from settled while facing serious headwinds. This will require very clear focus, prioritisation and courage. Not all recommendations can be pursued with equal priority and choices will have to be made with the guiding principle being the restoration of trust.

Third, partnership as an organisational model per se has not been specifically interrogated in the Review. However, the challenges to ensuring clarity of roles and responsibilities and reporting lines in an inherently non-hierarchical model should be addressed to ensure good governance. A partnership of the scale of PwC Australia risks being unwieldy unless it ensures accountabilities, especially for non-financial outcomes, are clear. ASX-listed company best practice serves as a good guide, as noted in several of the recommendations.

Fourth, cultural change is not a 'quick fix'. It will require a sustained effort and role modelling from across the partnership, a preparedness to lean into uncomfortable conversations, to share bad news and to build the 'muscle' for constructive challenge. PwC Australia must cultivate an environment across the firm that actively encourages reflection, and learning from mistakes, including at partner, senior leadership and Board levels. This must cascade from the top and be reflected in behaviours across the organisation.

It is acknowledged that high levels of collegiality and trust among peers are strengths to which many organisations rightly aspire, and can also serve PwC Australia well. These attributes, and the other positive elements of PwC Australia's culture, can be harnessed for the renewal and restoration of trust in the future.

Resetting for the future

Fortunately, PwC Australia recognises and regrets that it has fallen short of community expectations and has not always got it right. The firm appears to understand that simply waiting for the current drama to subside will not heal public perceptions and will not restore the trust that has been eroded. Greater introspection, humility, proactivity and urgency will be required.

The Independent Expert notes the actions taken and commitments announced by PwC Australia in recent months, and believes the firm has the expertise within its ranks, and within the PwC global network, to deliver what is required to reset for the future.

The recommendations in this report are changes that, if implemented, will help ensure PwC Australia is better positioned to realise its purpose ***"to build trust in society and solve important problems"***.

Introduction

1 Introduction

1.1 Background

On 9 March 2023, the Australian Senate referred an inquiry into the management and assurance of integrity by consulting services provided for the Federal Government to the Senate Finance and Public Administration References Committee for inquiry (the **Senate Inquiry**) and report by 26 September 2023, which has since been extended to 30 November 2023. In response, PricewaterhouseCoopers (**PwC Australia**) announced that it had commissioned a review of the firm's frameworks and practices relating to Governance, Accountability and Culture (the **Review**).

On 15 May 2023, PwC Australia announced that it had appointed Dr Ziggy Switkowski AO (the **Independent Expert**) to lead the Review and produce a report of key findings and recommendations.

The terms of reference for the Review are in Appendix A, and background on Dr Switkowski AO is in Appendix B.

1.2 Scope

Under the terms of reference, the primary focus areas of the Review were:

- **Governance** – The roles and responsibilities of key governance boards/committees and the way in which decisions are made, including how financial objectives, values and strategic priorities have an impact on decision-making and risk management, and how decisions, once made, are implemented;
- **Accountability** – The way in which partners and staff discharge their roles and responsibilities both on an individual and collective basis, the remuneration and incentive arrangements and their impact on accountabilities, and the application of consequence management; and
- **Culture** – The system of values and behaviours throughout PwC Australia that shape the collective approach to managing risk, making decisions and PwC Australia's stakeholders.

The objective of the Review was to assess the strengths and shortcomings regarding the embedment and effectiveness of PwC Australia's governance, culture and accountability frameworks, arrangements and practices, and to develop findings and recommendations for PwC Australia to address observed gaps in these areas.

The Independent Expert considered the subject areas set out in the terms of reference (Role of the Board, Senior Leadership Oversight, Risk Governance and Conflicts of Interest, Issues Management, Remuneration and Consequence Management, and Culture and Leadership). The Review also considered feedback from the Senate Inquiry and the outcomes of a review of the design effectiveness of PwC Australia's tax governance and internal control framework conducted by former Australian Taxation Office official Bruce Quigley in 2021 (the **Quigley Review**). The Independent Expert had reference to a range of assessment considerations set out in the terms of reference for each of these focus areas.

The assessment of governance, culture and accountability was undertaken by reference to the time at which the Independent Expert commenced work in May 2023. However, where deemed relevant, historical documents and other artefacts relating to specific matters were considered to inform the Review findings.

As PwC Australia announced in May 2023, it has been conducting an investigation, with the assistance of external counsel, into the sharing or misuse of confidential information relating to the tax matters. The Review was expressly requested not to address or analyse root causes of these matters or identify accountabilities for any related conduct, or consider any regulatory compliance implications of those matters. The Independent Expert was also not asked to consider, and did not make any findings in relation to, matters that are subject to legal proceedings or regulatory actions.

The Review also did not undertake detailed analysis of the firm's relationship with PwC International and the PwC global network.

1.3 Approach

The Review commenced on 23 May 2023. The work undertaken involved a range of activities to evaluate the governance, culture and accountability at PwC Australia and determine findings. It included:

- interviews with current and former members of the Board of Partners and the Executive Board, and partners and staff across PwC Australia;
- review and analysis of documentation provided by PwC Australia relating to the matters under review, including risk frameworks, reports, policies and processes; various Board and Committee charters and terms of reference; and a range of other reports and artefacts relating to areas of interest; and
- a series of focus groups conducted across each business unit and the enabling functions as well as different levels of staff in Sydney, Melbourne, Brisbane and Canberra offices.

Further detail on the activities undertaken as part of the Review is provided in Appendix C.

It is noted that PwC Australia provided limited samples of agendas, papers and minutes from the Board of Partners and Executive Board and their respective Committees, and various councils, panels and forums across the firm. Where samples were made available, these were assumed to be representative in formulating the findings of the Review. It has been assumed that no materially relevant documents have been withheld by PwC Australia in response to requests in the Review.

It is also noted that the Review did not include interviews with several former PwC Australia partners who were not available as a result of retirement or exit from the partnership during the course of the Review. It is also noted that the Review was conducted over a relatively compressed time frame, during which the firm was engaged in a number of related investigations, reviews and inquiries.

In determining the approach to the Review, the Independent Expert referred to a range of published reports and previous reviews relating to governance, accountability and culture and other background materials, including those listed in Appendix D.

The Independent Expert acknowledges the assistance of PwC Australia in facilitating the scheduling of interviews and briefing sessions with senior leaders across PwC Australia, the co-ordination of focus groups, the provision of documentation for review and clarification of certain factual matters relevant to the Review.

1.4 Report structure

This report is set out in three main sections, consistent with the terms of reference for the Review. Each chapter is comprised of an overview (which provides background context), the findings and the recommendations for addressing the gaps and shortcomings that were observed.

Section A relates to PwC Australia's governance structures:

- Chapter 2: *Role of the Board of Partners;*
- Chapter 3: *Senior Leadership Oversight*;
- Chapter 4: *Risk Governance and Compliance Frameworks;* and
- Chapter 5: *Issues Management.*

Section B relates to PwC Australia's culture:

- Chapter 6: *Culture.*

Section C relates to PwC Australia's approach to accountability:

- Chapter 7: *Remuneration and Consequence Management.*

Section D consolidates the Independent Expert's recommendations to PwC Australia for addressing the findings and the gaps and shortcomings identified throughout Sections A to C.

Section A

Governance

2 Role of the Board of Partners

2.1 Overview

Critical to the governance of an entity of the size and complexity of PwC Australia, with its increasing regulatory and broader stakeholder expectations, is an effective and efficient oversight body. PwC's global network-wide standard (**Network Standard**) on governance requires that the firm, as a member of the PwC network of firms, has an oversight function, independent of management, which practices continuing good governance. PwC's internal governance standards define the objectives of good governance as supporting the vision, values and principles of the PwC network and strengthening its reputation by having the highest standards of business practices.

The ultimate supervisory body responsible for governance and oversight of PwC Australia is the Board of Partners, also referred to colloquially within the firm as the Governance Board. At 1 August 2023, the Board of Partners was comprised of the firm's Country Senior Partner (**CSP**, also referred to as the **CEO**) and ten partners elected by the partnership.

The powers and responsibilities of the Board of Partners are derived from the PwC Australia firm Partnership Agreement and include "ensuring a strong firm" and "protection of the interests of partners". The Board of Partners' responsibilities include numerous matters relating to management of the partnership, such as supervision of the process of partner income determination, partner equity issues, and partner admissions and retirements. The broad responsibilities for "ensuring a strong firm" and "protection of the interests of partners" have broadly been interpreted as including responsibility for oversight of the firm-wide risk management framework, including monitoring risks associated with key initiatives and material risks.

The Board of Partners is supported in its role by several Board committees. The Risk Committee, for example, supports the Board of Partners in its oversight of risk management, including oversight of the "firm wide risk management framework developed to address the risk implications of the execution of the firm's strategy". The Partner Evaluation and Income Scheme (**PEIS**) Committee has a broad remit of assisting the Board of Partners in its responsibilities relating to the partner performance evaluation and income scheme, which is discussed further in Chapter 7: *Remuneration and Consequence Management*. The Finance and Operations Committee's focus is governance oversight of finance and operational matters, including the financial implications of firm strategy and constructive challenge of the firm's budget, financial and operational performance of the businesses, equity investments and external reporting.

PwC Australia announced on 29 May 2023 that two independent, non-executive members will be appointed to the Board of Partners, with a view to bringing "independent, outside-in perspective and objectivity to the firm's governance".[3]

[3] PwC Australia. (2023, May 29). *PwC Australia announces further actions on governance, accountability and culture* [Media release]. https://www.pwc.com.au/media/2023/pwc-announces-further-actions-230529.html

2.2 Findings

2.2.1 The effectiveness of governance and oversight is inhibited by the composition of the Board of Partners, which lacks sufficient independence from the CEO and senior leaders of the firm

The current composition of the Board of Partners inhibits its effectiveness as an oversight body, and the preparedness of its members to challenge and oversee senior leaders and hold them accountable to the partners for the management of the firm.

The Partnership Agreement includes a mechanism to appoint up to three external members to the Board. However, to date, the members of the Board of Partners have been solely elected from the partnership. While members elected from the partnership bring a deep collective understanding of the business, particularly as Board members maintain their client-facing and functional roles, there is no objective, external perspective in the forum. The Partnership Agreement also currently requires that the Chair and Deputy Chair be partners of the firm.

As partners of the firm, all members of the Board *structurally* report, at least indirectly, to the CEO and members of the CEO's leadership team in their 'business' roles. Given this circularity, the Review formed the view that members of the Board of Partners are likely to perceive themselves as having insufficient seniority to challenge the CEO and their leadership team, and that in recent years this may have led to sub-optimal management of important issues.

Importantly, the CEO and members of the senior leadership team are likely to have a role in the remuneration and partner performance evaluation for Board members. This creates a further uncomfortable tension, inhibiting the 'psychological safety' of Board members to challenge, limiting the Board's effectiveness. This structural tension may also limit the attractiveness of a role on the Board of Partners to otherwise experienced and well-qualified candidates in the firm.

Members of the Board of Partners shared that meetings are collegial, constructive and involve challenge, and sample minutes of Board meetings suggest that the Board engaged in discussion, questioning and debate. However, the perception of some partners is that there was limited robust challenge of the CEO or other leaders, except perhaps informally by those 'close' to the CEO. There is a relatively common view that the Board of Partners lacks genuine power, some referring to it as "ceremonial" or "relatively toothless". The overt collegiality between the Board of Partners, the CEO and members of the senior leadership team, and the perception that challenging senior leaders may risk repercussions in the remuneration and performance review processes, are likely to be contributing factors.

The power of the Board of Partners to hold the CEO and senior leaders accountable is also constrained by the fact that, under the Partnership Agreement, the appointment and removal of a CEO is not formally within the Board's authority. Instead, at PwC Australia, the CEO is appointed through election by the partnership body.

It is clear that independence is important to good governance and oversight. This is reflected in the *ASX Corporate Governance Principles and Recommendations*, which apply to entities listed on the ASX, and also serve as a contemporary guide to appropriate corporate governance standards for other organisations.[4] Independence in this context might be characterised as being free from any interest, position or relationship that might influence, or be reasonably perceived to influence, the capacity of members of a governing body to bring independent judgement to issues and act in the best interests of the entity as a whole. Having multiple independent members on a Board brings additional experience, contributes to a culture that

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[4] ASX Corporate Governance Council. (2019, February). *Corporate Governance Principles and Recommendations* (4th Edition). https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf

promotes diversity of thought, debate and challenge, and makes it easier to balance the authority or perspective of any individual, business line or stakeholder group.

Interviewees commented on the value of the external perspective provided by independent members of the Audit Quality Advisory Board (**AQAB**) in terms of enhancing quality in the Assurance business. The AQAB is an advisory body, established in 2019, with three external members and a remit to provide advice and challenge on matters relating to audit quality in the Assurance business.

PwC Australia has also recognised the benefits of external, independent perspectives in governance, announcing in May 2023 that it proposes to appoint two external members to the Board of Partners. It will be important for independent members appointed to the Board of Partners to have an active role in supervising the partner income determination process for members of the Board of Partners. This will help mitigate the perception – and potentially the reality – that remuneration outcomes and career progression unduly influence their willingness to engage in debate and constructive challenge, and the Board's overall effectiveness.

2.2.2 There is not a robust process for ensuring the collective skills and expertise of the Board of Partners are appropriate for the governance and oversight body of an entity of the firm's size and complexity

The Board of Partners, as the ultimate supervisory body of the firm, must collectively have the requisite skills and expertise to effectively discharge its role and add value. The Board of Partners has not historically used a skills matrix to define the range of skills and expertise required, including to address vacancies and succession planning. A robust process for identifying these skills and expertise, and addressing any gaps, would also enhance trust and the perception of the effectiveness of the Board.

Partners are generally elected to the Board of Partners for two or four year terms. The election process was described as a popularity contest, although it is noted that PwC Australia also appears to have a strong commitment to having a Board of Partners that reflects the diversity of the partnership. To support this objective, the Board undertakes a process to define and prioritise diversity criteria for potential candidates in each Board election.

The diversity criteria defined by the Board in April 2022 for an upcoming Board election focused on gender and cultural diversity, and business line and geographic representation, but relevantly it did not include governance or technical skills. Some partners perceive that otherwise well qualified candidates may not nominate themselves for election if they do not meet the diversity criteria.

Some interviewees made comments to the effect that the firm has over-indexed on having individuals with significant client responsibilities in senior roles, with less emphasis on people with "wise heads" and instinct:

> “
>
> *we have lost the art of leadership,*
> *the experience and confidence to challenge*

A substantially more rigorous, complete and regular process to assess requisite governance skills and experience, cognitive diversity as well as the expertise required to effectively discharge the responsibilities of the various Board committees, is critical to addressing these issues.

2.2.3 The responsibilities of the Board of Partners for governance and oversight are not well articulated and may currently receive less focus than matters relating to the protection of partner interests

While members of the Board of Partners are intelligent, capable and well-intentioned, the operation of the Board of Partners does not reflect 'fit for purpose' governance of a complex and sizeable business.

Given the Board's wide-ranging responsibilities for matters relating to the protection of partner interests and matters that affect partners, the Board of Partners is insufficiently focused on matters of oversight and governance, including risk implications of firm strategy, oversight of risk management more broadly and adherence to better practice governance.

PwC Australia has grown rapidly in size and complexity, but the Board has not sufficiently adapted its structure or the allocation of its time to an increasingly complex oversight role. It is apparent from the description of the Board's role in the Partnership Agreement, and from interviews, that a primary focus of the Board has been on partnership matters, including supervision of the process of partner income determination and approval of partner admissions and retirements in the context of the firm's strategy.

It appears that the firm may have recognised this. A Board Charter was adopted in October 2022, building on existing protocols, to outline the way the Board's powers and responsibilities will be exercised and discharged by Board members, with the intention of facilitating efficient and effective operation of the Board and its Committees. The Charter also states its purpose is to assist those who engage with the Board. These changes were apparently intended to encourage more time for the Board to input into firm strategy and were supported by activities to improve forward planning of Board agenda items and a protocol of using a 'cover sheet' for Board papers to provide context and sharpen the focus of the Board on matters being presented. Notwithstanding these improvements, there is a need to continue to evolve the Board's operation to elevate the governance discussion and distinguish it from a management conversation.

The Board agendas, papers and minutes for several 'business as usual' meetings in 2022 reflect that partnership matters were a large focus of the Board's time in meetings, with a number of agenda items relating to the partnership agreement, admissions and retirements, partner policies and the PEIS process. Overall, there is scope for greater attention to risk and strategy matters. The materials reflect some strategy items were discussed and the Chair of the Board Risk Committee provided updates to the Board on the most recent Board Risk Committee meetings. However, there is not a standing risk agenda item or specific time allocated to risk discussion at every meeting of the Board of Partners.

While PwC Australia's approach to risk management has been evolving in recent years and some enhancements have been made to risk reporting to the Board of Partners (as discussed in more detail in Chapter 4: *Risk Governance and Compliance Frameworks*), many of these developments are recent and not yet embedded. Increased focus is required to oversee and support the operationalisation of better risk management practices across the firm, particularly in the context of the numerous leadership and structural changes that have taken place at PwC Australia during 2023.

2.2.4 Board reporting lacks the rigour and transparency that would enable effective discussion and more informed decision-making at meetings of the Board of Partners

It was observed, from the sample materials made available by PwC Australia, that reporting and papers provided to the Board of Partners do not support effective governance or the discharge of the oversight responsibilities of the Board. For example, agendas and Board papers do not consistently include clear framing of matters being presented or specific recommendations to the Board. For efficiency, the Board of Partners sometimes receives the same version of a report provided to the Executive Board, without refinement to reflect input from the senior leadership team or the differing accountabilities of these two bodies. Risk reporting to the Board of Partners, as well as to the Executive Board, has also lacked sufficient insight to support effective oversight in respect of risk. This is discussed in more detail in Chapter 4: *Risk Governance and Compliance Frameworks*.

Overall, there is also a perception among partners that there tends to be limited transparency for the Board of Partners of legally sensitive matters, including matters referred to internally as 'troublesome practice matters' (**TPMs**).

TPMs are described in firm policy as matters that call into question the quality of services provided by the firm or which might damage the firm's reputation. Under the firm's policies, TPMs might include client complaints, and formal or informal claims for damages, costs or compensation. It was observed from the materials provided for review that legal updates from the Office of the General Counsel (**OGC**) to the Board Risk Committee were generally verbal. While it is appropriate to thoughtfully manage the confidentiality of sensitive matters and legally privileged information, it is not clear that in recent years there has been a culture that supported proper transparency to the Board of Partners in some areas. Without proper visibility, there is reduced ability for a governance forum to challenge a 'legally-led' position, and consider more balanced approaches.

2.2.5 Committees of the Board of Partners could be improved by more formal co-ordination and escalation of information, insights and recommendations to the Board of Partners

The Risk Committee of the Board of Partners has a strategically important role and a broad remit. It meets at least quarterly, and in 2022 met seven times. The Risk Committee's meeting processes appear reasonably sound, including some forward agenda planning and limited action tracking in place. Risk Committee minutes reflect discussion of agenda items and requests for management follow up, but do not generally give a sense of robust challenge or urgency of those requests.

The Risk Committee does provide regular reports to the Board of Partners and minutes of Risk Committee meetings are tabled with the full Board. However, minutes suggest updates on the work of the Risk Committee are brief, without clear and regular escalation of material insights and recommendations. The reporting for the Board Risk Committee is discussed in further detail in Chapter 4: *Risk Governance and Compliance Frameworks*.

While it was reported that the Board Committee Chairs typically meet to discuss matters of relevance across Committees, these meetings were informal and not minuted.

2.2.6 The Board of Partners does not adequately review its performance and effectiveness

The Charter for the Board of Partners contemplates an annual process for Board members to provide feedback to the Chair on the performance of the Board and individual members, and periodic performance reviews by a qualified external party. However, performance or effectiveness reviews in the past have been unstructured and not formally documented. It is unclear whether any reviews are undertaken at the Committee level. While it was reported that the Board has considered engaging an external consultant to support an effectiveness review, this has not yet occurred.

As reflected in the *ASX Corporate Governance Principles and Recommendations*, it is important for boards to have in place a proper process for regularly reviewing, preferably annually, the performance of the board, its committees and individual members given their critical role to an entity's governance.[5]

Without such a review, the Board of Partners and its Committees are less equipped to reflect on appropriate structural and operational changes, evolve practices, and design and implement coaching or education programs, to ensure they are able to discharge their responsibilities effectively.

[5] ASX. (2019). *Corporate Governance Principles and Recommendations* (Recommendation 1.6).

2.3 Recommendations

Recommendation 1:

Restructure the Board of Partners to ensure adequate independence

Restructure the Board of Partners (the **Board**) to ensure it has more appropriate independence, and provides more effective oversight of the operations of the firm, including:

- at least three (or preferably a majority of) independent non-executive members
- an independent non-executive Chair

Recommendation 2:

Clarify and restate the governance role of the Board

Reformulate the roles and responsibilities of the Board to ensure it dedicates proper focus to a broad range of governance and oversight responsibilities, including:

- define the remit of the Board as the ultimate governing body (as distinguished from the Executive Board as the firm's senior executive leadership team), to avoid confusion about the oversight role of the Board
- reform the committee structure of the Board to better support it specifically with discharging its extensive responsibilities relating to partner matters
- expand the remit of the Leadership, Succession and Nominations Committee to include nominations for all members of the Board (partner and independent members), and the related succession planning
- update (and periodically review) the Partnership Agreement, Board Charter and the various Committee terms of reference to better articulate governance and oversight roles and responsibilities more consistent with the practices of an ASX-listed entity
- enhance forward agenda planning, decision-making and meeting practices to ensure proper attention to governance matters, including strategy, risk and culture, more consistent with the practices of a well-functioning ASX-listed entity

Recommendation 3:

Revise the CEO appointment process

Revise the electoral model relating to the appointment of the Country Senior Partner, or CEO, in particular to improve the accountability of the CEO to the Board, including by:

- ensuring the Board has express authority to appoint and remove the CEO
- consulting with representatives of the PwC global network in the CEO appointment process

Recommendation 4:
Develop a Board skills matrix and induction and development programs

Develop (and periodically review) a skills matrix for the Board (and its Committees), including:

- determine requisite governance skills and experience and cognitive diversity, to support its re-composition as an effective governance body
- implement induction and Board professional development programs to uplift governance skills and expertise of all members

Recommendation 5:
Design and implement Board succession planning

Design and implement succession planning for the Board, its Committees and the respective Chairs, utilising the Board skills matrix, with reference to the appropriate tenure of members

Recommendation 6:
Regularly review Board effectiveness

Undertake a more rigorous periodic review of the performance and effectiveness of the Board (including every three years using an external facilitator to conduct the review, with external benchmarking)

3 Senior Leadership Oversight

3.1 Overview

PwC Australia's Country Senior Partner, also known as the CEO, is elected by the partnership body to lead the partners and staff of the firm. The CEO is supported in that leadership role by an executive team. While PwC Australia refers to the CEO and his or her executive team as the 'Executive Board', it is not structured or operated as a Board in the commonly understood meaning of that term. The Executive Board is essentially an executive committee chaired by the CEO, which operates as the most senior management forum in the firm.

In 2020, upon the change of CEO, PwC Australia's operating model and Executive Board were restructured in line with a strategic focus on building three enabled and empowered businesses – Consulting, Financial Advisory and Assurance (referred to internally as the **Lines of Service**) with the Lines of Service supported by centralised, enabling functions, including for example Strategy & Reputation, Risk, People and Culture, OGC, and Finance. Leaders in the Lines of Service were significantly empowered to run their businesses, including to make key operational decisions.

In PwC Australia's external reporting, the Executive Board is described as having collective and individual accountability for the management of all strategic, operational, regulatory/compliance and financial risks, with risk matters scheduled to be tabled no less than quarterly.[6] The Executive Board established a Risk sub-Committee in late 2020, which is described in the firm's external reporting as having delegated authority from the Executive Board to review and challenge the effective management of risks across the firm, and includes representatives from the firm's businesses and functions.[7]

The typical cadence of Executive Board meetings through 2022 and early 2023 included a 'start of week' call, with longer meetings generally scheduled at least once each month and periodic offsites. Papers were required to be circulated in advance of the meetings and minutes are recorded, although less formally than was observed for the Board of Partners meetings. It does not appear that there is a practice of taking formal minutes of the Risk sub-Committee meetings.

Following recently announced changes, at 1 August 2023, the Executive Board is comprised of ten members, including the CEO.

3.2 Findings

3.2.1 The CEO has significant power and influence in decision-making under the Partnership Agreement and in practice tends to exert a dominant voice

At PwC Australia, the CEO has a strong mandate as a result of being elected by the partnership body following an election 'campaign' by the candidates. Significant power also resides with the CEO under the Partnership Agreement. This includes the powers to set the short and long-term strategic direction of the firm and manage implementation of strategy; determine management positions for the management and administration of the firm; appoint a management team; recommend admission of partners to the partnership; and implement policies concerning partner performance evaluation and income.

[6] PwC Australia. (2022). *PwC Australia Transparency Report FY22*. https://www.pwc.com.au/about-us/assets/firmwide-transparency-report-fy22.pdf

[7] *PwC Australia Transparency Report FY22*.

The CEO is elected by the partnership body, and the partnership body has the power to remove the CEO from that role under the Partnership Agreement, not the Board of Partners. As a result, the CEO is perceived to 'report to no one'. This creates a dynamic where the CEO tends to exert a dominant voice. Partners reported that, in recent years, this dominant voice was largely unchecked.

A Chair or experienced, independent director would typically provide guidance and counsel to a CEO of an ASX-listed entity. However, this is not the dynamic at PwC Australia between the CEO and members of the Board of Partners. As discussed in Chapter 2: *Role of the Board of Partners*, the members of the Board of Partners may not be willing, or perceive themselves to be in a position, to challenge the CEO.

Partners consistently expressed the view that the CEO has extensive authority and influence over the Executive Board. This group is typically composed of leaders having strong relationships with, and common views to, the CEO. The result can be 'proximity bias' from loyal colleagues and less freedom or propensity to challenge. There do not appear to be any processes to mitigate these risks or to enhance the culture of challenge at this executive level.

Interviewees reported that, in recent years, while some members felt comfortable debating matters with the CEO or taking opposing views, the perception is that Executive Board members are expected to be loyal to, and supportive of, the CEO and the current strategy, and not "ruffle feathers". In recent years, the Executive Board was comprised of thirteen or fourteen members, (excluding the CEO) with ten representatives from across the three Lines of Service. Some interviewees commented that the size was unwieldy, and the dynamics were challenging due to there being a mix of relatively more senior and junior representatives of each Line of Service present in meetings.

Without sufficient 'checks and balances' provided by the terms of the Partnership Agreement, the decision-making of the CEO – and the 'tone from the top' that he or she chooses to set – is largely a function of the personality of the executive in the position at any time.

3.2.2 The composition of the Executive Board in recent years has been inappropriately overweight with representation reflecting the "business empowerment" model, and enabling functions have been under-represented

The composition of the Executive Board in recent years has enabled the prioritisation of the strategic growth agenda without an appropriately balanced consideration of risk and other organisational matters. This has hampered decision-making that reflects a 'whole of firm' perspective.

In 2020, the Executive Board's composition was rebalanced to reflect greater Line of Service representation. Of the thirteen members (excluding the CEO), each Line of Service was represented by its head and two to three of its business leads. Only three members represented enabling functions. The Chief Risk Officer and General Counsel of the firm were not members, but only indirectly represented as part of the portfolio of the Chief Strategy, Risk & Reputation Officer.

As noted in the report of APRA's *Prudential Inquiry into the Commonwealth Bank of Australia* (April 2018), a federated organisational structure does not of itself raise issues but the success of organisations with such structures:

> *is dependent on the relative strength and 'voice' of the risk and other support functions, particularly in relation to those risks, processes and controls that span more than one business unit*[8]

[8] *Prudential Inquiry into the Commonwealth Bank of Australia*. (2018, April). (page 22). https://www.apra.gov.au/sites/default/files/CBA-Prudential-Inquiry_Final-Report_30042018.pdf

While client-facing partners have deep market and domain experience and expertise that can help drive a client-centric approach, having less 'seats at the table' for functions with an enterprise lens dilutes the 'voice of risk' and may limit a more objective, enterprise lens in discussions and decision-making. There also appears to have been a perception in recent years at PwC Australia, perhaps exacerbated by the firm's growth agenda, that "if you are not customer facing, you are in the way".

A restructure of the Executive Board for FY24 was announced on 4 July 2023. The new CEO announced that the Executive Board would be structured around three pillars – Business Portfolios, Strategic Enablers, and Risk & Compliance. Of the nine executives (excluding the CEO) on the restructured Executive Board, business portfolios are now represented by the heads of the three Lines of Service and the Markets leader, three executives are leaders of enabling functions and the OGC Leader and Chief Risk and Ethics Leader are also members.[9]

While these changes rebalance and improve the composition from the perspective of enabling more effective firm-wide management, and potentially elevate the 'voice of risk', it is too soon to observe whether this is occurring in practice. In addition, the perception of enabling services and functions (in particular the risk function) having less influence and status than the Lines of Service, and having been under-resourced in recent years, will also need to be addressed by PwC Australia to ensure balanced decision-making by management in the future.

3.2.3 There is a lack of clarity on the roles and responsibilities of the Executive Board, particularly in relation to risk

Under the operating model implemented by the CEO from FY21, in addition to the composition of the Executive Board being weighted towards business lines, key operational decisions were decentralised to business leaders with the intention of "empowering and enabling businesses to deliver growth and quality".

The model was intended to promote agile and streamlined decision-making, client-centricity and operational accountability. Under the model, the Executive Board was said to have shared accountability for "OneFirm" outcomes, with Key Performance Indicators (**KPIs**) for the members defined by reference to the "OneFirm" outcomes. The KPIs of leaders of strategic enabling functions were also noted as "focussed on delivering strategic priorities with a strong focus on the needs of the businesses".

However, there is no formal terms of reference or charter for the Executive Board and, in practice, it does not appear that it operated with a sufficient enterprise lens or with accountability for the breadth of enterprise-wide matters, including risk, that would typically be expected of the most senior management forum of an organisation.

While responsibilities, priorities and KPIs of the Executive Board may have been generally understood within the group, it is not clear that 'whole of firm risks' or cross-business issues were consistently and adequately discussed or managed. The approach and operations of the Executive Board was commonly described as "intentionally fluid". The lack of a defined terms of reference or charter also makes it challenging for partners and senior leaders across the wider firm to understand its remit and provide appropriate information to the forum.

There is also insufficient clarity on matters that the Executive Board is expected to have, or should have had, visibility on to enable it to discharge its responsibilities. For example, views were expressed that information about sensitive matters could be closely held, or managed by the business unit involved, the OGC, or a sub-set of senior leaders on a 'need to know' basis. With limited information and transparency, the Executive Board is constrained in its ability to question, challenge and manage firm-wide issues.

[9] PwC Australia. (2023, August). *PwC's Executive Board*. https://www.pwc.com.au/firm-executive.html

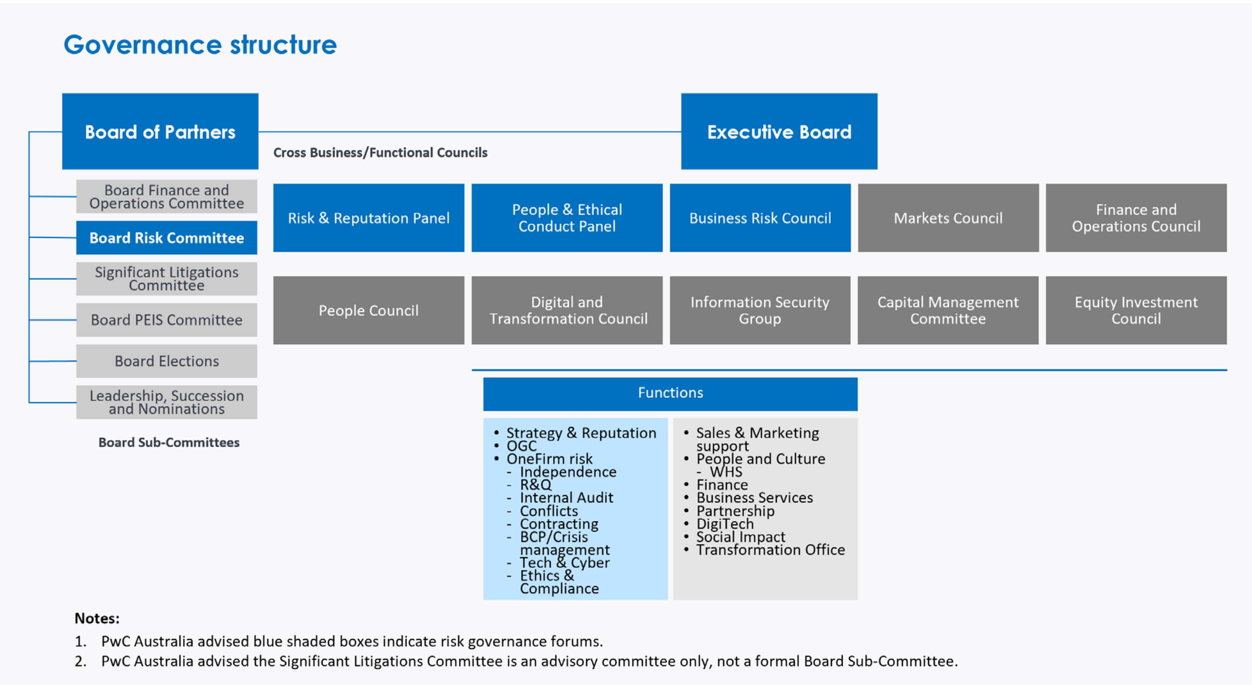
Without a formal terms of reference, there is also a lack of clarity as to respective roles and responsibilities, and 'ways of working', between the Executive Board and the Board of Partners, and between the Executive Board and the Executive Board's Risk sub-Committee.

3.2.4 The lack of proper delegations to, and co-ordination between, enterprise-wide forums impacts the ability of the Executive Board to effectively manage risk

While there are a number of forums and panels in the firm's governance structure (refer Figure 1), the overall impression is that they are not adequately co-ordinated and do not provide coherent insight and reporting to the Executive Board (or to the Board of Partners). There must be clear governance arrangements across the firm's various enterprise-level forums to ensure appropriate information and insight is escalated to the Executive Board to inform timely decision-making in management of the firm.

In both design and practice, the forums, including the People & Ethical Conduct Panel (**PEC Panel**), the Risk & Reputation Panel and the Business Risk Council are apparently not intended to operate with delegated responsibilities from, or reporting to, the Executive Board. Of these forums, only the Risk & Reputation Panel has a clear escalation path to the Executive Board in limited scenarios under the Risk & Reputation Policy. The operation of these forums is discussed further in Chapter 4: *Risk Governance and Compliance Frameworks*.

Figure 1: Overview of PwC Australia's governance structure as at June 2023[10]



[10] Sourced from PwC Australia internal presentation dated June 2023.

The Executive Board's Risk sub-Committee, which includes a sub-set of Executive Board members, operated with relative informality or "fluidity". The sub-Committee is described in PwC's external reporting as having delegated authority from the Executive Board to "review and challenge the effective management of risks across the firm".[11] This does not appear to be the case. While there is evidence of a charter for this body from late 2021, it appears to have operated largely as a working group to review and endorse the risk reporting for the Board Risk Committee in each quarterly reporting cycle. Meetings are not formally minuted and it is not clear that there has been a practice of escalating risk issues to the Executive Board or Board of Partners.

Without escalations for decision, or specific reporting and insight, from these various forums and panels, it is difficult to conclude that the Executive Board received the necessary information to effectively fulfil the role of managing the firm, bring an enterprise-lens to decision-making, or manage risk. It appears that an enterprise view of risk received limited attention, given risk reports were not regularly provided to the Executive Board. While components of risk, such as cyber resilience or people-related risks, were reported, material risks do not appear to have been consistently discussed and interrogated by the Executive Board.

An Internal review of the Executive Board's accountability and decision-making was undertaken by PwC Australia in 2018, and a draft report was tabled with the Executive Board at the time, with planned actions documented. However, various gaps and recommendations identified in the 2018 report continue to be worthy of reflection by the firm. Areas of focus that were then identified, and that continue to be relevant, include the clarification of escalation paths to the Executive Board for important decisions from the management forums and panels across the business, and implementation of a refreshed accountability matrix of Executive Board decision rights.

3.2.5 The Executive Board meeting practices and decision-making are insufficiently formalised for the most senior leadership forum of an entity the size and complexity of PwC Australia

While regular meetings, agendas, meeting papers and minute-taking are generally part of the Executive Board's practice, the lack of rigour relating to these practices suggests that the Executive Board may not currently be effective in discharging its leadership and firm-wide management responsibilities.

Meeting agendas generally lack detail on the reason for matters being brought to the Executive Board, and meetings do not appear to include the customary practices of reviewing and confirming minutes of previous meetings or discussing open actions. There is inconsistent use of cover memoranda specifying the decision or other action required, or recommendations.

Interviewees reported that meetings of the Executive Board were generally orderly and provided an opportunity for members to contribute, but there was also a recurrent theme of people finding ways to influence and make decisions "outside of the room" or "re-litigating" decisions, rather than engaging constructively and directly in Executive Board meetings. Failure to ensure that consensus on decisions is achieved in meetings is problematic, and the behaviour can have cultural implications for creating a mindset that no decisions are final, and there is opportunity to 'shop around' for decisions.

The internal review of the Executive Board's accountability and decision-making undertaken by PwC Australia in 2018, noted there were a number of improvement opportunities in how decisions at the Executive Board were made and executed. Recommendations in the draft report included the development of a framework for decision-making, including considerations for making decisions in relation to more material matters, such as crisis

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[11] *PwC Australia Transparency Report FY22.*

management, higher risk engagements and serious personal conduct issues. There was a finding that the Executive Board required greater structure and discipline in the way decisions were documented, and the supervision and monitoring of execution.

It is not clear whether these recommendations relating to decision-making were fully implemented. However, it does not appear there has been clear ownership or control of the 'TPB matters' crisis, nor effective management of enterprise-level risks, by senior leadership. The Review confirms that many of the observations in the internal review in 2018, and the related recommendations, remain areas for improvement.

3.3 Recommendations

Recommendation 7:

Define and formalise the role of the senior executive forum

Define the role, and responsibilities and accountabilities of the Executive Board as the senior executive forum of the firm in a charter or terms of reference, including:

- distinguish key areas where the Executive Board must be engaged in decision-making or have visibility of matters, and matters for which the Lines of Service have decision-making responsibility
- ensure firm-wide working groups, forums, panels and councils are properly constituted and co-ordinated to better support the role, and responsibilities and accountabilities, of the Executive Board, and implement clearer delegations and escalations between these groups and the Executive Board to reduce over-reliance on informal channels
- reflect the role, and responsibilities and accountabilities, of members of the Executive Board in performance review and consequence management processes, including in particular their accountabilities for risk

Recommendation 8:

Improve operating and decision-making disciplines of the senior executive forum

Implement more rigorous operating practices and decision-making for the CEO and Executive Board to ensure more effective management of firm-wide matters, including:

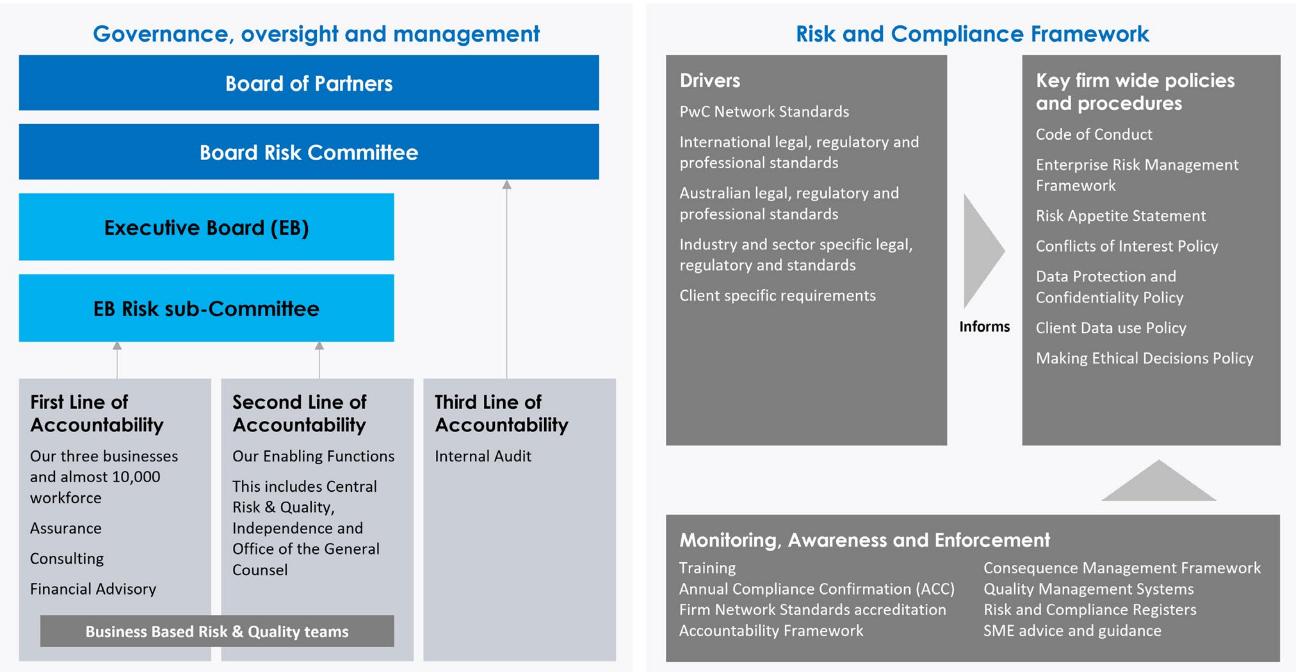
- develop more formal, structured meeting protocols (forward planning, agendas, requirements for papers, cadence and time allocated to complex or risk-related agenda items)
- improve the discipline in documenting decisions, matters arising and action items, including to support tracking and monitoring of execution of decisions by the CEO and Executive Board
- ensure more comprehensive, insightful and timely reporting from firm-wide working groups, councils, panels and other forums to enhance visibility (and escalation) of firm-wide matters, and better clarify the recommendations to, or actions requested of, the Executive Board

4 Risk Governance and Compliance Frameworks

4.1 Overview

An enterprise risk management framework should capture a firm's approach to managing risk and how risk management activities are intended to be reflected in business practices, systems, processes and behaviours. An enterprise risk management framework should provide a clear 'roadmap' for how an organisation manages a range of risks. These typically include strategic risks and financial risks as well as non-financial risks, such as operational risk, compliance risk, conduct risk, regulatory risk, reputational risk and cyber risk.PwC Australia's approach to risk management is described as following the 'three lines of defence' risk governance model. It is broadly comprised of Network Standards and network risk management policies that apply to all PwC firms globally, supplemented by policies of PwC Australia.

Figure 2: Overview of PwC Australia's risk governance, oversight and management[12]



[12] Sourced from PwC Australia. (2023, April). *Senate Standing Committees on Finance and Public Administration* [Submission].

According to PwC Australia, the Lines of Service have primary ownership and accountability for managing risk in their respective businesses, each supported by a dedicated Risk & Quality team (first line of defence). Each Risk & Quality team reports to the respective Line of Service head and is described as having a 'dotted' reporting line to the firm's Chief Risk Officer (**CRO**). Risk & Quality teams are responsible for managing the systems and processes that facilitate the delivery of quality services and ensure compliance with Network Standards and other professional standards. These teams oversee the training curriculum, conduct business and engagement reviews, and provide certain inputs into the remuneration and consequence management processes.

The central risk team (second line of defence) is responsible for risk oversight and providing challenge to the Lines of Service and the firm's enabling functions and is "accountable for One-firm risks". The role of the CRO is to establish and operate an effective enterprise risk management framework to manage risk throughout the firm. A Network Standard requires the firm to perform an Enterprise Risk Management (**ERM**) risk assessment on an annual basis, which is intended to identify and prioritise the components of enterprise-level risk, and to develop specific action plans to mitigate each identified risk. The risk assessment is reported as part of the annual compliance assessment process and the output of the ERM processes are integrated into the firm's annual business plan.

In prior years, the CRO has reported to the Chief Strategy, Risk & Reputation Officer, who was the risk representative on the Executive Board. Following recently announced changes, the CRO now reports to the Chief Risk and Ethics Leader.

The role of Internal Audit (third line of defence) is to provide assurance and confidence to PwC Australia as to the effectiveness of the risk management framework and processes through independent assessments.

Risk forums

The most senior body in PwC Australia with accountability for, and oversight of, risk is the Board of Partners. Under its terms of reference, the role of the Board Risk Committee is "to assist the Board of Partners in the effective discharge of its powers, duties, functions and responsibilities under the partnership agreement ('PA') in relation to governance oversight of risk". The role of the Board Risk Committee is discussed further in Chapter 2: *Role of the Board of Partners*.

At the senior management level, according to PwC Australia's external reporting, the Executive Board has "collective and individual accountability for the management of all strategic, operational, regulatory/compliance and financial risks" of the firm. The external reporting also refers to the Executive Board Risk sub-Committee as having 'delegated authority' from the Executive Board to review and challenge the effective management of risks across the firm, and including representatives from the firm's businesses and enabling functions.[13] The role of the Executive Board and its Risk sub-Committee is discussed further in Chapter 3: *Senior Leadership Oversight*.

PwC Australia also has a number of cross-functional councils, panels, forums and working groups that each support PwC Australia in managing risk-related matters. These include forums that are understood to have the following remits:

- Business Risk Council (formerly chaired by the CRO) – provides oversight of the application of risk management and quality frameworks, systems and processes, ensuring coherence and connectivity across PwC Australia in managing risks;
- Risk & Reputation Panel (formerly chaired by the Chief Strategy, Risk & Reputation Officer) – considers specific risk matters relating to significant reputation/brand, market and regulatory factors relating to client opportunities; and

[13] *PwC Australia Transparency Report FY22*.

- People & Ethical Conduct Panel (formerly chaired by the Chief Strategy, Risk & Reputation Officer for Employee Relations matters and the Chief Operating Officer for ethical and business conduct issues) – reviews and makes decisions relating to Employee Relations and ethics and business conduct matters.

These forums are represented in Figure 1 (refer Chapter 3: *Senior Leadership Oversight*).

Ethics and business conduct

The Network Standards require each PwC firm to appoint a senior Business Conduct Leader to implement, monitor and oversee all elements of the Ethics and Business Conduct Network Standard, and related policies and strategy. Under the current organisational structure in PwC Australia, the Ethics and Business Conduct function reports to the CRO.

Conflicts of interest

The criticality of conflicts management to the quality and integrity of the work of PwC globally is recognised in PwC's Code of Conduct.[14] The Code of Conduct acknowledges that "conflicts can take many forms" and provides guidance on situations where conflicts should be considered by partners and staff. With respect to accepting or starting work for a new client or on a new engagement, and throughout the life of the engagement, PwC Australia has policies which set out the obligations of partners and staff in identifying and addressing conflicts of interest and sensitive and higher risk situations.

PwC Australia has a central Conflicts team that develops and implements relevant conflict and risk management processes. This Conflicts team works with the Risk & Quality teams within the Lines of Service to ensure adherence with the firm's approach to conflicts of interest.

The firm generally requires the identification and assessment of potential conflicts prior to starting an engagement. As part of assessing conflicts of interest, PwC Australia's policy requires staff to take into account the nature of their potential client's business, their competitors and the geographical spread of their business. If conflicts are identified, the Conflicts team is responsible for providing advice on the acceptability of the engagement and the course of action, which may include declining an engagement, putting in place additional controls to mitigate risks or seeking client consent to undertake specific work.

4.2 Findings

4.2.1 The firm's risk and policy framework is overly complicated, with overlapping and rigid implementation of Network Standards, professional standards and local policies

As a member of a global professional services firm network, PwC Australia is obligated to comply with the Network Standards and network risk management policies. In broad terms, these are designed to ensure consistency in how risk is managed across network firms. PwC Australia has developed policies and designed processes to comply with these requirements.

In combination, the Network Standards, network risk management policies and local PwC Australia policies are detailed and well-articulated. On their face, these documents appear consistent with what might be expected of a professional services firm of the size and complexity of PwC Australia. However, while the Network Standards include an overarching requirement that firms have an effective enterprise-wide risk management framework, the PwC Australia documents do not clearly describe such a framework and the intersection of, and relationships between, the multiplicity of relevant standards, policies and obligations that seem to apply.

[14] PwC. (2021, April). *Living our Purpose and Values: PwC's Code of Conduct*. https://www.pwc.com/gx/en/ethics-business-conduct/pdf/pwc-code-of-conduct-april-2021.pdf

PwC Australia has in recent years rationalised its policies, including implementing an Internal Policy Hub. However, the policy framework remains unnecessarily complex. As a result, it continues to be challenging to obtain a clear picture of how structures and processes in fact operate, and for individuals at PwC Australia to readily identify or navigate the policies and requirements that are relevant to specific business activities.

4.2.2 The firm does not have an enterprise compliance function or clear understanding of responsibilities and accountabilities for compliance risk, and the scope and accountabilities for 'business ethics risk' are vague

Risk & Quality teams within each Line of Service appear to be generally responsible for compliance with Network Standards and other regulatory requirements. However, there is not a specific compliance function at PwC Australia, or clarity as to overall responsibility for compliance with the obligations to which the firm is subject. There is also no enterprise register or 'baseline' of compliance obligations for PwC Australia.

A number of teams appear to have responsibility for a subset of compliance activities, including the Risk & Quality teams, the central risk team, and the OGC. Interviewees were unclear about the intersections in the responsibilities of each team, and confirmed this is a gap. The general theme was that longer tenured staff have a sense of how compliance "gets done" but this could be challenging for newer colleagues to understand. Interviewees also confirmed the difficulty of undertaking an internal review or audit of the control framework in the absence of applicable obligations or a compliance framework.

The absence of a specific compliance function, clear accountability for compliance, or a compliance framework are weaknesses at an enterprise-level that have been previously identified and are well-known to PwC Australia. Risk maturity assessments indicate this has been an open action for several years. Interviewees reported that in 2018 the intention was to build a compliance function and hire a senior compliance director but that, following the CEO election in 2020 and the acceleration of the 'business empowerment model', this initiative was not progressed. This gap was highlighted in an Internal Audit update provided to the Board Risk Committee in May 2023 and assigned a risk rating of "very high".

It is noted that a new Director of Compliance role, reporting to the CRO, was proposed in May 2023 to support the uplift of the function, but the implementation of a robust approach to compliance is likely to take some time to embed.

With regard to conduct risk, interviewees were generally vague as to what might constitute 'business conduct matters' and the roles and responsibilities (individuals or teams) across the firm for managing confidentiality arrangements, independence requirements or conflicts of interest. Interviewees were equally unclear as to how breaches or escalations of such matters would occur, and how they would be recorded and reported at an enterprise-level. The definitions, framework and roles and responsibilities for managing conduct and business ethics risk, and how these intersect with compliance and risk more generally, are currently significant weaknesses at PwC Australia. This is discussed in further detail in Chapter 5: *Issues Management*.

4.2.3 The decentralisation of responsibility for risk management to Risk & Quality teams within the Lines of Service, without a sufficiently mature enterprise risk function, has led to sub-optimal risk management

In 2020, coinciding with the election of a new CEO, PwC Australia made a strategic shift towards an operating model that promoted business empowerment and the strategic aspiration of building "three world-class businesses". In connection with this shift, the firm adopted a new risk operating model that favoured the prioritisation of risk management capability within each Line of Service. The intention was to bring a greater risk focus to the day-to-day management of the respective businesses through the first line of defence.

With the implementation of this model and the transfer of staff from central functions to the Lines of Service, the resourcing and capability of the central functions, including the team responsible for the enterprise-wide view of risk, was said to have been 'hollowed out'.

These changes impacted the ability of the central risk team (second line of defence) to provide the advice and central oversight required for an effective three lines of defence risk model. The change may have also contributed to a tendency to manage risk issues in silos, or within the Line of Service, and an unwillingness or lack of clarity as to when or how to escalate or engage with the central risk team.

The CRO was not previously, and is not currently, a member of the Executive Board. The 'voice of risk' was previously represented by the Chief Strategy, Risk & Reputation Officer (now the Chief Risk and Ethics Leader). The Review found that in recent years the enterprise risk perspective was insufficiently 'voiced' or represented at meetings of the Executive Board and the Board of Partners. It is also not clear that enough time was consistently allocated to risk discussions to ensure risks were adequately managed and factored into decision-making. Interviewees suggested risk "got bumped from the agenda a bit" and did not really "get a seat at the table".

Similar gaps appear to have been previously identified by PwC Australia. Recommendations in the internal FY22 risk maturity review included that formal risk assessments should support all key decisions tabled with the Executive Board and Board of Partners. In addition, there were recommendations to ensure sufficient time for material risk matters to be tabled and discussed to allow the right actions to be taken.

In recent years, under the decentralised model, the central risk team has performed the role of collating risk reports from information provided by the Lines of Service. It appears the central team may have paid insufficient attention to challenging the Risk & Quality teams providing the information.

The risk reports are prepared on a quarterly basis for the Board Risk Committee (and typically provided in advance to the Executive Board Risk sub-Committee). The Review observed that some of these quarterly reports included high-level references to risks relating to engagement with the Australian Taxation Office (**ATO**), but there were few references to the 'TPB matters' at a time that would have been expected. It is now clear that past CRO reports did not adequately capture or describe the issue or the risk relating to the 'TPB matters', did not highlight the escalating risk, and did not accurately reflect the impact on the enterprise risk profile at the time.

Such reporting deficiencies may be indicative of a failure to have properly identified, managed and monitored risk within the Line of Service. They may also suggest a failure of the business (or Risk & Quality team aligned to the business) to engage transparently with the central risk team, to ensure the appropriate escalation of risks. Further, these deficiencies may be indicative of a lack of oversight, challenge and guidance, which would be provided by an effective second line of defence.

A report to the Board of Partners in May 2023 acknowledged that recent events "have significantly altered the assessment of the risk environment" and that work was underway to "conduct a bottom-up assessment of the material risks, having regard to the current conditions". It was noted that the material risk profile would be "subject to a significant refresh in light of i. the historic events not previously captured and ii. the current and emerging operating environment".

There is not necessarily a best-practice structure for risk management accountabilities across an organisation. However, in organisations with greater risk maturity, a critical success factor is the clear articulation and ownership of accountabilities across each of the three lines of defence.

The establishment of Risk & Quality teams within Lines of Service with responsibility for supporting the business in identifying, assessing, managing and monitoring their risks, is consistent with good practice. In particular, a specialised Risk & Quality team can potentially leverage a deep business understanding and strong engagement with the business to collectively achieve more effective risk outcomes for that particular Line of Service. However, without a sufficiently mature centralised risk team to provide appropriate 'counter-balance' and constructive challenge, effective enterprise risk management is compromised.

Following a risk maturity review in 2022, the weakness in risk governance was reported to the Board Risk Committee, with reference to "some sharing of [risk management] execution across Lines 1 and 2" and the need to "develop Line 1 strength to allow Line 2 to provide constructive challenge".

4.2.4 The 'dual-hatting' of partners with senior risk responsibilities and blurred reporting lines are indicative of the deprioritisation of enterprise risk management and lower risk maturity

It has been the practice at PwC Australia for partners with senior enterprise risk roles and responsibilities to also have market facing responsibilities. In some cases, up to 60% of the time of partners with key risk responsibilities was reserved for client-facing work. This 'dual hatting' has the potential to impact the capacity of a partner to dedicate focus to risk responsibilities, which can weaken risk management capability. In addition, 'dual hatting' raises potential for tensions, or conflicts of interest, in the identification and management of risks that may arise in the client-facing aspects of a partner's role.

Overall, there is conflation of roles and reporting lines, confusion as to which roles perform first line as opposed to second line functions, and matrix risk reporting lines across the partnership. This overall lack of clarity on risk accountabilities presents an inherent challenge under a partnership model, given partners do not strictly report to each other as might be the case in a more hierarchical corporate structure. PwC Australia therefore needs to ensure roles are made very clear if it is to achieve an effective three lines of defence model.

The FY22 internal risk maturity review assessed the risk framework as "sound", and maturity as "defined", the applicable rating for when the "Risk Management Framework and systems are formally established, embedded and operating to meet expectations contained within recognised standards". It noted a need for focus over the ensuing twelve to eighteen months to develop capabilities to provide more insights and business translation for key risks and constructive challenge within the business. While PwC Australia has acknowledged these weaknesses in the risk operating model, interviewees noted past pressures to manage costs in the enabling functions, including risk.

While not uncommon in a large organisation, it appears that the three Lines of Service are at differing levels of risk maturity. For example, the Assurance Line of Service appears to exhibit a stronger understanding of, and practices relating to, risk management compared with the other business lines. Specifically, it has a well-developed controls framework for audit quality management.

Differing maturity levels further impacts the ability of the firm to obtain an accurate, consolidated enterprise-wide view of risk and impedes the firm's ability to identify and manage emerging risks. Internal reports also acknowledge that integration of the enterprise view into risk processes is only done "informally". Interviewees noted that it would improve the risk culture of the firm to link data across the three Lines of Service and provide clear examples of what good risk management looks like.

4.2.5 Conflicts of interest are not adequately managed at a whole of firm level, creating the risk that decisions are made without complete information

There has not been, and does not yet appear to be, an overarching framework providing clear instructions to partners and staff as to how to identify or manage the various types of actual, potential, or perceived conflicts. There is also insufficient guidance for how to differentiate between various types of conflicts of interest. The lack of a clear framework makes it challenging for partners and staff to understand when, and how, to seek approval, or how to escalate concerns regarding conflicts. Further, conflict risk awareness is not sufficiently embedded within the DNA of the firm to rely on 'risk muscle memory'.

There appear to be multiple notification methods available across the firm to raise and resolve conflicts of interest. Interviewees confirmed that ‘independence checks’ for audit clients are part of a “strong regime” where it is easy to determine whether an engagement can proceed or not due to the strict independence requirements for the Assurance business. Engagements that fall outside of these ‘professional relationship’ categories rely heavily on partners doing the right thing as opposed to a system that readily identifies and retains this information.

In addition, PwC Australia appears to lack a process for, or practice of, consolidating all conflicts of interest information. Without a readily obtainable enterprise-wide view of conflicts, the ability to manage conflicts is compromised.

PwC Australia has a central Conflicts team that is described in internal policy as broadly responsible for completing internal relationship checking to assist the engagement partner. The evaluation of the information provided is the responsibility of the engagement partner. It does not appear that PwC Australia consistently considers the nature and impact of conflicts of interest at a whole of firm level.

In November 2022, the TPB determined that PwC Australia had failed to have in place adequate arrangements to manage conflicts of interest under the relevant code in respect of its tax practice. In response to the related orders, in July 2023 PwC Australia published a compliance report outlining steps taken to improve certain practices.[15] These steps included implementing a targeted training course for tax practitioners and the establishment of a central register of confidentiality arrangements. The compliance report notes that the central register extends to confidentiality agreements and undertakings related to consultation on regulatory reform or policy with government agencies, regulators or professional bodies. PwC Australia has advised the Review that it continues to enhance its firm-wide approach to the management of confidentiality agreements. It is too early to assess whether these proposed changes, when implemented, will be sufficient.

Similarly, while PwC Australia has taken some steps to address deficiencies in conflicts management, including in response to the ‘TPB matters’, this does not appear to have occurred with a sense of urgency or with firm-wide application yet. As a result, more work is required to build the effectiveness of this function to serve an enterprise of the size and complexity of PwC Australia.

4.2.6 Risk reporting to the Executive Board and Board of Partners does not provide a robust enterprise-wide view of risk to enable effective firm-wide management and oversight

While the firm’s internal risk handbook suggests the various risk-related management committees should support the Executive Board in undertaking risk management activities, in practice it does not appear that these forums consistently report to the Executive Board. Contrary to the handbook, some interviewees suggested this was not the purpose nor the intention. The lack of clarity with respect to the role and practices of these forums, and the number of forums with potentially overlapping remits, creates complexity. These factors appear to have led to misplaced confidence as to coverage and visibility of critical risk issues at the Executive Board and Board of Partners levels. These issues are also discussed in Chapter 3: *Senior Leadership Oversight.*

Quarterly risk reporting provided to the Board Risk Committee, while relatively lengthy, has typically lacked adequate risk insight to enable effective oversight and inform enterprise-level decision-making. The reporting appears to have provided limited insights on emerging risks, reasons for changes to material risk ratings, or additional controls or actions to bring risks within target risk ratings. The reporting also gave an overall impression of limited urgency, particularly in view of the significance of some of the matters noted.

[15] PwC Australia. (2023, July 14). *PwC Compliance Report re TPB Order dated 25 November 2022: Report for six-monthly period ending 30 June 2023.* https://www.pwc.com.au/pdf/PwC-Compliance-Report-2023.14.07-with-Appendices-A-and-B.pdf

4.2.7 The controls framework is under-developed, which limits the ability to undertake controls testing and obtain assurance on control effectiveness and recommendations to improve risk maturity

PwC Australia conducts a review of its risk maturity every two years, with the most recent review occurring in 2022. This latest review identified 18 actions for improvement. The majority of the identified areas of improvement are fundamental to an effective framework. However, the actions were allocated what appear to be highly ambitious timeframes, particularly in view of recent changes at PwC Australia. While a recent CRO report notes that approximately half of these actions for improvement have been completed, it is too early to determine whether these changes have been embedded.

Overall, the PwC Australia control framework is at an early stage of development, which necessarily limits the ability of the Internal Audit team to test the effectiveness of controls and alignment of controls to the risk profile. Within some areas of PwC Australia, the control framework appears to be further developed.

PwC Australia's Assurance business has a system of quality control that supports audit quality. Interviewees confirmed that the system is subject to ongoing internal monitoring and regular testing, including a periodic review undertaken for each member firm by the PwC global network team. This was last conducted for PwC Australia in June 2022. PwC Australia has reported information about the quality management system for the Assurance business in the 2022 PwC Australia Audit Transparency Report.[16]

The 2021 Quigley Review undertaken into PwC Australia's tax governance and internal control framework considered whether it met certain principles and standards contained in the draft large market tax Adviser Principles.[17] It concluded that PwC Australia had developed an effective control framework, consistent with the draft Adviser Principles. The Quigley Review indicated that PwC Australia had improved their control framework with respect to the tax business. PwC Australia has publicly advised that a further independent external review on the design effectiveness of the tax governance and internal control framework is planned to commence in August 2023.

[16] PwC Australia. (2022). *2022 PwC Australia Audit Transparency Report*. https://www.pwc.com.au/assurance/transparency-report/FY22-Audit-Transparency-Report.pdf

[17] The draft Adviser Principles were drafted by the Big 4 Accounting firms and Greenwoods & Herbert Smith Freehills.

4.3 Recommendations

Recommendation 9:
Substantially improve enterprise risk management capability

Elevate the 'voice of risk' at the whole of firm level by improving capacity, capability and expertise in enterprise risk management, including:

- recruit skilled risk resources and enhance training for the central risk function
- eliminate 'dual hatting' of partners with risk responsibilities, to ensure sufficient focus on risk management and avoid potential conflicts of interest

Recommendation 10:
Embed clearer accountabilities for risk across the firm

Create a more robust enterprise-wide approach to risk by ensuring the three lines of defence model is more effectively embedded, consistent with external best practice, including:

- ensure clearer responsibilities and accountabilities for risk management across the firm (and in the three lines of defence)
- drive greater consistency in risk processes and practices across the three Lines of Service

Recommendation 11:
Fix gaps in compliance risk management

Fix gaps in the management of compliance risk and uplift compliance maturity, including:

- prioritise the appointment of a senior and dedicated Head of Compliance, with an appropriately senior reporting line (e.g., to the Chief Risk and Ethics Leader)
- develop a firm-wide compliance framework and approach to compliance breach reporting

Recommendation 12:
Improve functionality of the executive-level Risk sub-Committee and other risk-related forums

Develop clearer terms of reference for the Risk sub-Committee of the Executive Board and various other risk-related committees, councils, working groups and panels, including:

- clarify and reduce overlap, duplication and internal confusion as to the respective roles and responsibilities of these risk-related forums
- ensure proper collation and escalation of risk information and insights to the Executive Board (and the Board of Partners) to enable debate, constructive challenge and a better enterprise-lens in decision-making

Recommendation 13:

Strengthen firm-wide approach to conflicts of interest

Implement an overarching conflicts of interest framework to consistently capture actual, potential and perceived firm-wide conflicts, supported by better training on conflicts to drive capability and behavioural change

5 Issues Management

5.1 Overview

Issues management refers to the processes and practices by which an organisation identifies, assesses, escalates, manages and resolves issues that arise during the course of conducting its business. Implementing systems and processes that enable issues to be 'flagged' and addressed in a timely way is a core component of effective risk management. However, the mindsets and behaviours of people within an organisation relating to raising issues, and responding to them when they arise, are also important to effectively managing risk. Adequate frameworks are therefore necessary, but not sufficient, for an organisation to be able to manage issues effectively. A culture that is conducive to 'speaking up' when issues arise is also critical. These issues are discussed in further detail in Chapter 6: *Culture*.

PwC Australia's approach

PwC Australia does not have an overarching framework or process for issues management across the firm. It does not have a central risk system or formal mechanism for capturing incidents that occur or issues that arise. Issues management is, instead, supported by a combination of Network Standards and PwC Australia policies and frameworks that appear to be used within a Line of Service (rather than firm-wide).

The terms 'risk' and 'issue' appear to be used interchangeably by PwC Australia. From a technical perspective, these are different concepts and have distinct roles in a mature risk framework. The PwC Australia internal risk handbook refers to the concept of an 'incident', but no distinction is made between incidents and issues. It outlines how the firm uses concepts of likelihood and consequence to assess risks. However, it does not contain information on how or if incidents are logged, how issues are identified and escalated, or how risks are escalated or the processes for tracking and monitoring their resolution in a structured manner.[18]

While PwC Australia does not have a mature firm-wide issues management framework, it does have less formal, decentralised practices and protocols that apply when issues arise in the course of conducting its business. In practice, issues at PwC Australia are addressed in a myriad of ways, depending on the nature of the issue, the perceived sensitivity or seriousness of the issue, and the business area to which the issue relates.

Relevantly for the Review, issues appear to be generally addressed within Lines of Service. 'Conduct issues' are also generally addressed within Lines of Service or, in the case of more serious conduct issues, through specific mechanisms and forums such as the PEC Panel. TPMs are typically dealt with by the OGC.

Issues

In general terms, the Lines of Service have responsibility for managing risks and issues in their respective businesses, supported by business-aligned Risk & Quality teams. Each Line of Service appears to take a slightly different approach to managing and documenting what would be considered to be issues and risks that arise. There does not appear to be a consistent practice of maintaining a risk register, or a register of incidents or issues, at the Line of Service level. Some Lines of

[18] Typically, an 'incident' would refer to events causing adverse consequences for an organisation and an 'issue' would refer to weaknesses or gaps (including in the control framework) that expose an organisation to potential losses. Typically, an organisation would describe various categories of 'risk' that may have an impact on the ability to achieve strategic objectives.

Service, notably Assurance, have implemented more comprehensive tracking and monitoring of issues and risks than others (refer Chapter 4: *Risk Governance and Compliance Frameworks*).

At an enterprise-level, quarterly CRO reports provide a summary view of material risks across the firm. These reports may include a "Quality Dashboard" for each Line of Service, which summarises the risks and the qualitative and quantitative metrics used to measure and track them, with each business reporting on its own measures and limited enterprise aggregation. There does not appear to be a central register, or practice of specifically documenting issues, or a structured practice for escalating, monitoring and resolving the issues that relate to those firm-wide risks.

In some areas of the firm, such as the Work, Health & Safety function within the People and Culture team, issues reporting and monitoring is more developed and robust.

Conduct issues

The PwC global network's Code of Conduct defines the firm's purpose and values and sets expectations for, and guidance on, the way partners and staff conduct the business of the firm, including with high standards of ethical behaviour.[19] The stated intent of the Code is to ensure the firm behaves in a manner consistent with the firm's values.

In broad terms, PwC Australia appears to reference two primary categories of conduct: personal conduct and ethical business conduct.[20] Interviewees typically understood the term 'personal conduct' to refer to workplace behaviours, and expectations of staff to conduct themselves in a manner that contributes to a respectful workplace, for example free from bullying, harassment and discrimination.

The terms 'ethics' or 'business conduct' were typically understood by interviewees to refer to compliance with frameworks, standards, and values that define how PwC Australia does business. PwC Australia tends to define business conduct by listing activities such as conflicts of interest, confidentiality and independence.

PwC Australia's policies, processes and practices for managing these different types of conduct issues, are quite different. The relevant policies and processes are also owned and managed by separate functions within the firm. Personal conduct matters appear to be the responsibility of the People and Culture function, while ethical business conduct is within the remit of the CRO, and ultimately the Chief Risk and Ethics Leader.

The PEC Panel is a forum that, according to its terms of reference, has a wide remit for issues that relate to both personal conduct and ethical business conduct. Under its terms of reference, the PEC Panel has broad decision-making rights in relation to matters including "breach of the firm's code of conduct/policy breach" as well as matters that constitute "complex workplace considerations (involving employees or partners i.e. breach or severe breach)", or "are commercially sensitive", "include reputational or client risks", "breach of laws" or "where no precedent exists". Conduct issues, as they relate to the partner performance review process, are discussed further in Chapter 7: *Remuneration and Consequence Management*.

The role of the PEC Panel is to assess conduct matters using the applicable consequence management framework. However, under its terms of reference, the PEC Panel considers only the most serious cases (referred to as category 1 matters), and less serious matters are managed by the relevant Line of Service with support from the relevant Risk & Quality team. In practice, for

[19] *PwC's Code of Conduct* (2021, April) is supplemented by a Global Third-Party Code of Conduct (e.g., for subcontractors). In addition, there is a separate global Tax Code of Conduct to guide the Tax Business in how to make sound judgments when advising on tax matters. Each of these documents is publicly available on the PwC website. https://www.pwc.com/gx/en/about/ethics-business-conduct/code-of-conduct.html

[20] PwC Australia appear to use the terms 'ethical business conduct', 'ethics' and 'business conduct' interchangeably.

personal conduct matters, the categorisation (and therefore the determination of which matters are dealt with by the PEC Panel) appears to be performed by the People and Culture function. Overall, it is unclear how business conduct matters are escalated to the PEC Panel, or how (or by whom) categorisation of those matters occurs.

Troublesome Practice Matters

TPMs, which may also relate to conduct, appear to be typically dealt with by the OGC.

5.2 Findings

5.2.1 There is no overarching issues management framework or clear firm-wide process to identify, assess, escalate, manage, monitor, and resolve issues

PwC Australia does not have an issues management framework of the type that would be expected in an organisation with higher risk maturity, or in an organisation of PwC Australia's size and complexity. As a result, issues are managed in a 'piecemeal' fashion and there is a lack of consistency, rigour or clarity to this process.

Without a framework it is difficult to understand when, how and with whom an individual within PwC Australia would be expected to, or could, raise a particular type of issue. 'Issues' are reportedly able to be flagged with supervisors or partners within the Line of Service, or with the relevant Risk & Quality team, with individuals in support functions or through multiple helplines and IT systems. The Review concluded that overall there are not clear or well understood channels for registering issues to ensure all issues are raised and, in turn, to ensure the completeness of the data capture (whether data is held centrally, or within each Line of Service).

As a result, it is difficult to conclude that there could be the necessary visibility of material issues for effective decision-making and oversight of risk by senior leadership and governance forums. If issues are not captured and documented in a systematic way, they cannot be managed and monitored as would be expected in a mature framework.

Neither the Executive Board nor Board of Partners appear to receive reporting or information on issues arising within Lines of Service other than in high level quarterly CRO reports. For example, there appears to be no separate assessment of the severity of issues (as opposed to overall risks) and limited visibility of actions (and ownership of actions, or due dates) that relate to the issues or risks identified.

Internal Audit reports to the Board of Partners include tracking of management actions arising out of internal audit reviews. However, there appear to be relatively loose processes at an enterprise-level for tracking and monitoring remedial activities relating to issues noted in the CRO reports, and no formal protocols or mechanisms for closure of those issues at the appropriate time. PwC Australia has identified the opportunity to strengthen its capability in monitoring and reporting in its internal risk maturity reviews, noting in 2022 that:

> “
>
> *basic standardised monitoring of ERM activities and risk information is in place for some business units*

Without ensuring proper enterprise-wide risk governance around the assessment and management of issues and risks, issues will invariably 'slip between the cracks'. PwC Australia's approach to managing issues is likely to have a significant impact on the ability of the Executive Board and Board of Partners to address the most material issues and risks in a timely manner.

In addition, the lack of proper data capture relating to issues and risks, either at the Line of Service level or at the enterprise-level, precludes PwC Australia from analysis that could identify repeat or systemic issues, or long outstanding matters. These insights would help to drive improvements in risk management and inform decision-making, strategy and investment prioritisation.

5.2.2 There is inconsistency in definitions and understanding of the distinction between ‘ethical business conduct’ and ‘personal conduct’ issues, creating confusion about responsibilities and governance

While the PEC Panel is the forum that purports to have responsibility for managing conduct issues in the firm, it is difficult to validate that it in fact performs that role for ethical business conduct issues. Interviewees involved with the PEC Panel described its role in relation to personal conduct issues but were universally unclear about the remit beyond that. Most did not recall many (if any) business conduct issues being raised through the forum. Sample records of the meetings of the PEC Panel provided typically focused on actions relating to particular case matters, and did not indicate that business conduct issues, or trends and insights, were addressed by the forum.

Several key internal policy documents use differing terminology relating to conduct issues, creating complexity and contributing to an overall lack of clarity. The process for reporting, escalating and managing issues across a wide spectrum of events – from inappropriate workplace behaviours to legal or compliance breaches to unethical dealings – is confusing. The terms ‘ethical conduct’ or ‘business conduct’ are not clearly and consistently defined. A comprehensive internal review by PwC Australia in April 2021 concluded that *“*the term ‘ethics and business conduct’…is capable of many meanings…but it is not defined”. This ambiguity still exists today.

Relevant internal documents generally list examples of what might constitute unethical conduct, such as breach of laws, criminal activity and conflicts of interest. The most common definition appears to be “conduct that is, or may potentially be, unethical or dishonest, illegal or serious”. A separate category of ‘business integrity’ is used to describe matters including “conflicts of interest, independence and client”. Interviewees also noted that while “confidentiality matters are more black and white” and relatively easier to address, identifying and knowing how to manage conflicts of interest and independence issues may not always be as clear. The implications for effective accountability are discussed in further detail in Chapter 7: *Remuneration and Consequence Management*.

PwC Australia identified similar areas of confusion, weaknesses and gaps relating to the manner in which it manages conduct issues in its 2021 internal review. The internal review concluded that the firm’s approach to ethical or business conduct was:

> “
> *lacking strong strategic focus with supporting activities generally undertaken in an unconnected and unsystematic way*

5.2.3 The overall fragmented approach to conduct issues creates gaps and challenges in obtaining a firm-wide view of conduct risk

In addition to unclear definitions and accountabilities, and multiple channels for reporting and escalating various conduct issues, there is not a robust practice for collating fragmented data sets from multiple areas across PwC Australia to ensure there are no ‘gaps’. While ownership by separate functions is not necessarily problematic, the inability to form an enterprise-wide view creates challenges for risk management. In the absence of a single channel, or central system, information that is collected in ‘pockets’ must either be aggregated, or separate data sets viewed together to provide a complete picture. This does not appear to be the practice at PwC Australia.

There is a complex ‘tapestry’ of responsibility for conduct at PwC Australia. As previously noted, only more serious conduct matters are dealt with by the PEC Panel, with other conduct issues being managed within Lines of Service. Specific types of business conduct issues are managed through the Independence or Conflicts teams. While more serious conduct issues are within the remit of the PEC Panel, conduct matters that rise to the level of being a TPM might not be managed through that forum but are typically dealt with by the OGC.

Interviewees and focus groups reflected the perception that the OGC had significant influence in dealing with TPMs and sensitive matters, including personal or other conduct issues. The OGC was considered to contribute to the difficulty in obtaining visibility of issues.

PwC Australia is the only member firm globally that does not utilise a single case management system (that is recommended for the PwC global network) to track, manage, and report certain conduct matters. Interviewees expressed views that the firm relies too heavily on business partners and manual processes to input data to ensure a complete view of such conduct issues, and some expressed concerns that the data is not complete.

While periodic management reporting on firm-wide conduct issues appears at first glance relatively comprehensive and digestible, it predominantly covers categories of personal conduct, rather than business conduct issues. The reporting contains detailed information on numbers of issues raised, segmented in various ways, and trends. Overall, however, it lacks sufficient insight as to the nature or relative materiality of various conduct issues to be useful for senior forums such as the Executive Board or Board of Partners.

As described in Chapter 4: *Risk Governance and Compliance Frameworks*, the strategic decision to adopt a business empowerment model in the pursuit of "three world-class businesses" appears to have occurred at the expense of central oversight. This has led to challenges in obtaining an enterprise-wide view of risk. Similarly, there is no enterprise-wide aggregation of conduct issues.

Improving the central oversight of issues, including more regular tracking, monitoring and reporting of the status of conduct issues raised by the Lines of Service, would be a significant improvement, given the broad remit of the Risk & Quality teams within Lines of Service.

5.2.4 There is limited central oversight and unclear responsibilities and accountabilities for regulatory engagement across the firm

PwC Australia operates in a highly regulated environment and is subject to a range of regulatory requirements and professional standards, both domestically and internationally, given the services the firm provides. Despite this, the firm has limited dedicated resourcing for regulatory engagement and regulatory affairs.

Overall responsibility for regulatory engagement currently sits with the Chief Risk and Ethics Leader. Interviewees suggested that reporting of issues and breaches, and liaison with regulators regarding such issues, is typically (but not exclusively) managed by the OGC. In practice, Lines of Service appear to manage specific relationships with regulatory bodies relevant to their areas of practice.

Relevantly, certain business activities of PwC Australia are subject to external regulatory reviews and inspections. In the Assurance business, for example, these include periodic reviews undertaken by the Australian Securities and Investments Commission on the quality of the firm's work as statutory auditors, periodic reviews by the Chartered Accountants Australia and New Zealand review programme, and inspections by the US Public Company Accounting Oversight Board (**PCAOB**).

The limited enterprise-wide governance of regulatory relationships, coupled with the lack of robust enterprise-wide risk and issues management, may create challenges. PwC Australia may not readily have context for enquiries or requests for information from regulators, nor systems and processes to support timely disclosures. These factors may help explain the failure to meet regulatory and community expectations regarding disclosures of issues and breaches in recent times.

5.3 Recommendations

Recommendation 14:

Improve focus on issues management

Implement an overarching issues management framework that enables consistent identification, escalation and monitoring of incidents and issues across the firm (especially conduct issues), including:

- clarify senior leadership accountabilities for monitoring specific issues
- increase time allocated in meetings (including Executive Board and Board of Partners) to review material and longstanding issues
- develop more robust issue analysis and reporting of insights
- improve transparency of issues and outcomes across the firm to drive learning loops and enhance risk culture

Recommendation 15:

Redefine and clarify accountabilities for conduct risk

Develop and embed a firm-wide framework and accountabilities for conduct risk, to better clarify the approach to both personal and business conduct, including:

- redefine the role and remit of the People & Ethical Conduct Panel
- improve training to strengthen the understanding of personal and business conduct issues
- develop clearer channels or protocols for (in particular) capture of business conduct issues, to enhance data integrity
- clarify delegations by, and escalations to, the Board of Partners relating to conduct issues (and improve quality of reporting to enhance oversight and drive a 'conduct risk-aware' culture)

Recommendation 16:

Improve rigour of regulatory engagement

Review firm-wide approach to regulatory engagement to improve rigour in regulatory engagement (consistent with external best practice) and enhance oversight by the Board of Partners, including:

- appoint a senior and dedicated Head of Regulatory Engagement, with an appropriately senior reporting line (e.g., to the Chief Risk and Ethics Leader)
- implement more consistent practices across the Lines of Service

Section B

Culture

6 Culture

6.1 Overview

Culture has a significant impact not only on how an organisation is governed, makes decisions and manages risk, but on how effectively it meets broader community expectations. These factors are all critical to earning and maintaining trust with stakeholders, both internal and external.

Culture is often defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organisation. It provides the tacit social order of an organisation, defining what is encouraged, discouraged, accepted, or rejected within a group. The behaviours that are tolerated send a strong message around expectations. Fundamentally, culture reflects what is truly valued by an organisation and the unwritten rules by which one must operate to deliver on strategic goals and operate within risk appetite.

The mindsets and behaviours of leaders' play a central role in shaping and influencing culture, as leaders become the role models of what they seek to create. To establish new cultural norms, the shift must start with changes in the behaviours of leaders, including what they say, what they do, and what they prioritise and reward.

Culture is created and sustained at all levels of an organisation through a combination of culture levers, which include behaviours and mindsets, symbols, stories and rituals, and systems and processes. These levers can be pushed or pulled intentionally to change the culture within an organisation over time. An organisation's values underpin culture, indicating what guides behaviours, decisions and interactions.

PwC Australia's cultural artefacts

The PwC global network's purpose is "to build trust in society and solve important problems" through a culture of five values and behaviours detailed in Figure 3. These values also inform the PwC Code of Conduct, which sets expectations relating to, and informs, how people make decisions and do business.

Figure 3: PwC values and behaviours[21]

Act with integrity	Make a difference	Care	Work together	Reimagine the possible
• Speak up for what is right, especially when it feels difficult • Expect and deliver the highest quality outcomes • Make decisions and act as if our personal reputations were at stake	• Stay informed and ask questions about the future of the world we live in • Create impact with our colleagues, our clients and society through our actions • Respond with agility to the ever changing environment in which we operate	• Make the effort to understand every individual and what matters to them • Recognise the value that each person contributes • Support others to grow and work in the ways that bring out their best	• Collaborate and share relationships, ideas and knowledge beyond boundaries • Seek and integrate a diverse range of perspectives, people and ideas • Give and ask for feedback to improve ourselves and others	• Dare to challenge the status quo and try new things • Innovate, test and learn from failure • Have an open mind to the possibilities in every idea

[21] Sourced from *PwC's Code of Conduct*.

In June 2023, the global PwC Strategy Council endorsed an evolution of the PwC leadership capability framework, known as 'The PwC Professional'. The Evolved PwC Professional underscores the importance of purpose and values working alongside strategy as an integrated system to ensure "trusted leadership" and "distinctive outcomes". References to values, principles and ethics are also embedded within the capability framework across the various staff grades. The Executive Board is currently reviewing the approach to the implementation of The Evolved PwC Professional within PwC Australia.

PwC Australia conducts an annual employee engagement survey called 'Mojo'. Results are reported to the Executive Board, to the leadership teams within the Lines of Service and to team leaders who each receive a report for their teams. Mojo results and insights are also used to drive recommendations and actions for improvement across PwC Australia.

Between 2020 and 2022, six culture reviews were conducted across PwC Australia's three Lines of Service: Consulting, Financial Advisory and Assurance. The reviews identified key cultural traits as well as critical behaviours to target for the relevant Line of Service. Assurance, in particular, has taken a robust approach to embedding and measuring its critical behaviours (Humility; Courage; and Realism) through an ongoing internal Assurance culture sentiment survey as well as incorporating the behaviours within the firm's annual Mojo survey.

In large organisations, sub-cultures are common, and these are evident in the PwC Australia culture reviews. Sub-cultures emerge from a range of nuanced cultural norms and behaviours shaped through individual leadership styles and are reflective of different parts of an organisation's structure and hierarchy. Notwithstanding the existence of sub-cultures, all organisations have dominant cultural 'hallmarks' or cultural attributes that permeate, and are reinforced through, the behaviours of leaders at the 'top' as well as firm-wide systems, processes, symbols, stories and rituals.

6.2 Findings

Overall, PwC Australia's key cultural hallmarks are a high-performance, results-focused culture supported by strong collegiality and care within teams. These are consistent with cultural aspirations for PwC Australia to be an organisation where people feel 'safe, included and respected'.

People at PwC Australia tend to be smart, high achieving, committed, and dedicated to delivering quality outcomes for their clients. PwC Australia has invested in flexible working structures and many social, community and sustainability initiatives. Great value is placed on diversity and inclusion as well as opportunities for personal and professional development, mentorship and career advancement. Within individual teams, there is a high level of trust and collaboration, and an 'all hands-on deck' approach to solving problems and delivering projects at pace.

However, when cultural strengths are overplayed, the potential for 'shadow sides' emerges, as reflected in Figure 4.

Figure 4: Summary of 'shadow sides' of PwC Australia's cultural strengths[22]

6.2.1 PwC Australia's strategic focus has prioritised 'above system growth' over purpose and values

In recent years, PwC Australia's strategic focus has shifted to a highly targeted growth strategy. The resultant 'tone at the top' has been a clear pursuit of 'premium peer growth', understood to equate to being the biggest and the best of the Big 4 firms, with the most highly paid partners. While the firm's strategies in recent years have also included elements relating to people and culture, financial performance and the growth agenda have been prioritised over purpose and values.

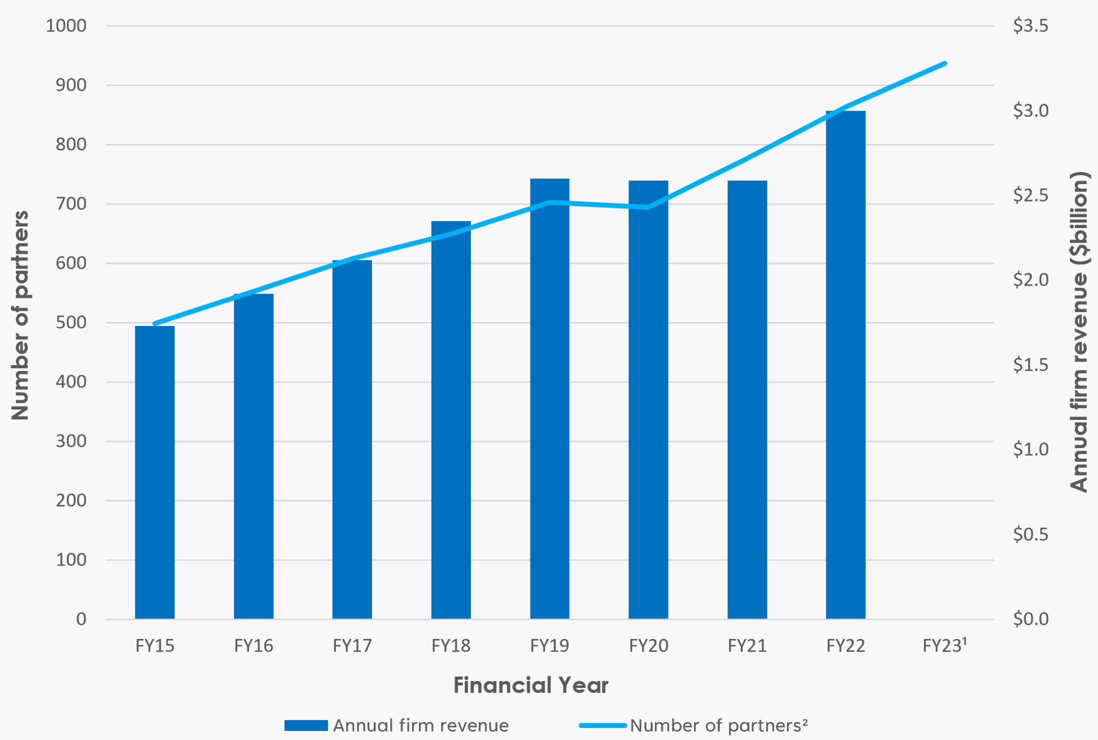
The way in which leaders spend their time, and the matters to which they devote their attention, sends clear cultural signals. Overall, interviewees and focus groups reported that conversations about purpose and values have declined and receive less consideration in decision-making. The mindset was said to have been "growth at all costs" with a spotlight on "revenue, revenue, revenue".

In response to the growth mandate that dominated in recent years, the PwC Australia partnership has grown rapidly (see Figure 5), with over 370 new partners admitted to the partnership since 1 July 2020, 107 of which were admitted outside of the usual intake cycle after 1 January 2022.[23]

[22] Prepared for the purposes of this report, based on activities undertaken in connection with the Review.

[23] PwC Australia. (2022, June). *PwC Australia appoints 107 new partners, adding 148 leaders to its partnership in FY22* [Media release]. https://www.pwc.com.au/media/2022/pwc-new-partners-fy22.html

Figure 5: Growth of revenue and partners at PwC Australia[24]



Notes:

1. Annual firm revenue for FY23 has not yet been published and is therefore not represented above.
2. Number of partners for FY23 are as of PwC Australia's last partner admissions on 1 January 2023.

A rapid growth in new partners, and tasking those partners with aggressive revenue expectations, creates the challenge of setting consistent behavioural expectations and boundaries for how that growth is to be achieved.

More generally, when growth targets are discussed without reference to behavioural expectations and risk implications, the 'how' of achieving growth targets is left to individual interpretation and personal values. This creates the risk of unethical behaviour, or behaviour that exceeds the firm's risk appetite, making it more challenging to drive a culture of "doing the right thing". This theme, described as 'growth vs values', was presented in the 2021 Mojo survey results to the Executive Board:

> *the AU Partnership operates largely from a profit seeking perspective, sometimes at the expense of ethics and doing what's right. I do not believe this aligns with our values*

The 2022 Mojo survey results echoed the sentiment that the focus on partners achieving financial targets had come at the expense of prioritising values and purpose, which left staff feeling that their work is "driven by the growth objectives of individuals rather than common purpose".

[24] Data sourced from PwC Australia transparency reports and additional data supplied by PwC Australia.

Fear, competition, and high expectations for strong financial performance by partners have been apparent in recent years. Partners sense considerable pressure to meet financial targets. In leadership meetings, dialogue has focused on which parts of the business are *"*make-take positive or negative". This has involved a comparison of business areas that are contributing proportionally more (or less) in revenue than the partners responsible for the revenue recoup in salaries and bonuses. There is also a high level of transparency on partner remuneration. In combination, the pressure on partners to meet financial targets is reported by many to be "anxiety-inducing". Partners reported that "constantly comparing ourselves to (the) person next to us is a cultural challenge for us".

6.2.2 There is a willingness to accept or tolerate behaviours of 'key players' who contribute substantial revenue in pursuit of the growth agenda

One of the strongest signals of what senior leadership values in an organisation is who gets promoted and rewarded and why. Interviewees and focus groups consistently reported that at PwC Australia "revenue is king" and partners who exceed financial targets are celebrated as "heroes". Referred to as "rainmakers", individuals that exceed targets have been rewarded by promotion into key leadership positions.

Some rainmakers were described as the "untouchables" or individuals to whom "the rules don't always apply". The high-performance, results-focused culture has been used as an excuse to justify poor behaviour:

> *they think the revenue they bring in means they can do what they want, and it comes through in their behaviours towards fellow partners and their teams*

Some partners also reported feeling pressure to make business decisions that were seen to be bordering on unethical.

6.2.3 An operating model that has over-emphasised the autonomy of the Lines of Service has led to reinforcing of sub-cultures, leading to silos, competitive behaviour, and short-termism

Internal culture reviews over the past several years during which the operating model shifted to a focus on building "three world-class businesses" demonstrate that each Line of Service has developed its own cultural identity. The reviews highlight the strong sense of collaboration and trust within teams. However, across teams there is a common theme of division and unhealthy internal competition.

Behaviour between Lines of Service was described in interviews and focus groups as "sharp elbowed" with a 'silo' mentality. Across the Lines of Service, competition seems to be more evident than teaming and collaboration. The 2021 Mojo survey data presented to the Executive Board noted that "partnership is naturally competitive rather than collaborative" and that "a divide remains in certain teams which certain leaders have no desire to overcome".

Similarly, the 2022 Mojo survey results presented to the Executive Board suggested that the 'tone from the top' was driving a culture of competition from the top down:

> *the firm is great at going to market together but I have observed Partners competing against each other internally and I have experienced political, calculated, antisocial behaviour*

Competition among partners may be exacerbated by a relatively short-term focus on in-year revenue targets, and a need to secure a "slice of the revenue pie". PwC Australia has sought to encourage collaboration through the introduction of teaming measures such as 'allocated bookings' in Consulting. This is a global measure which applies a multiplier to the actual value of an opportunity or engagement based on the number of individuals that contributed to a sale. However, this measure is viewed by some as a false measure that can be easily gamed.

Silos and internal competition within an organisation affect people internally as well as clients and external stakeholders. For example, silos at PwC Australia have led to confusion and inefficiency in staffing projects. It was reported that partners can have a tendency to bring their 'own people' into a project, rather than scanning the wider business to bring the best of PwC Australia's expertise to a job.

Silos also create implications for risk management and challenges for the aggregation of information and enterprise-wide insight. Chapter 4: *Risk Governance and Compliance Frameworks* and Chapter 5: *Issues Management* discuss these factors and related findings in further detail.

The implementation of the business-empowerment operating model in recent years was also accompanied by a focus on cost reduction. As non-revenue generating functions, enabling functions were downsized at the centre, and responsibilities were decentralised to the Lines of Service. While PwC Australia grew rapidly, growth in central enabling functions did not keep pace. Instead, headcount and capability was removed or transferred from central enabling functions to the Lines of Service. It was reported that the attitude was that central enabling functions needed to "get out of the way and let the business do what it needs to".

When structure and strategy combine in these ways, the ability for complex problems to be solved collaboratively at the enterprise-level and for decision-making to reflect the enterprise lens, is inhibited. This theme was reported in the 2021 Mojo survey results:

> *the business unit model in Australia has increased competition between the businesses and resulted in a reduction in central activities and opportunities which tie us all together as one PwC team*

6.2.4 The culture exhibits an over-reliance on trust within the partnership, at times as a substitute for effective risk management or pursuing uncomfortable conversations

PwC Australia is one of the largest professional services partnership groups in Australia, with 937 partners at 1 January 2023.[25] In a partnership of this size, it can be challenging to involve all partners in key business decisions. As a practical matter, and in view of the personal liability that attaches to partnership, membership of the PwC Australia partnership is typically accompanied by high levels of trust of fellow partners. This sentiment is reflected in the 'Spirit of Partnership', a strategic pillar in the FY21 strategy, which refers to the notions of collaboration, care and trust.

Partners overwhelmingly reported a high level of trust in one another, and a sense of "mateship". Those that have a strong and close-knit internal network know that when times are tough, their peers will step in to help.

As equal owners of the firm, with joint and several liability, there is an assumption that all partners will act in the best interest of the firm and can be trusted to do so. Partners also reported that "as partners you have to trust that other partners are doing the right thing because we move so fast".

The necessity for trust can create the risk of over-confidence or 'blind trust' in the decisions and capabilities of fellow partners and those in senior leadership positions. However, an enterprise of the size and complexity of PwC Australia requires effective governance and risk management structures and processes. Trust alone is not sufficient. Nevertheless, the message from the top in recent years has been "trust us, we've got this" or, when questions are asked, that issues are "being managed".

[25] PwC Australia. (2023, January 1). *PwC Australia admits 67 new partners* [Media release]. https://www.pwc.com.au/media/2022/pwc-new-partners-Jan-2023.html

6.2.5 A highly relational and collegial culture leads to relationships being favoured over capability at senior leadership levels

The culture at PwC Australia is highly collegial. Relationships are important, people support one another, they value harmony and avoid conflict.

To thrive as a partner in such a large and complex system, a strong internal network is critical, and significant energy is invested in cultivating this. Tenure is highly valued at PwC Australia and important to progression. For those that commenced as graduates (colloquially known as 'lifers'), there is an intrinsic advantage derived from an understanding of how the system works and having seeded key relationships. There appears to be a strongly held belief that the ability to succeed is "dependent on how long you've been here and knowing how to play to your audience".

For those that entered PwC Australia as lateral hires, the experience was described as "chaotic and out of control" until the emphasis on relationships was understood. It was commonly reported that at PwC Australia "it's not what you know, it's who you know". This was acknowledged in 2020 by the CEO:

> *coming in laterally is difficult. We are not an easy organisation to come into. It is quite an informal leadership structure*

While a highly relational culture can be positive and contribute to a sense of belonging, when this strength is overplayed, it manifests as 'cronyism'. Cronyism is the phenomenon in which people give important jobs to friends rather than to people who may be better suited based on skills or experience.

In general, building relationships with influential senior people who will be sponsors or advocates for career advancement is sensible practice, but this is especially critical to success at PwC Australia. Cronyism is evident in the CEO election process. Winning the CEO election not only requires a compelling 'manifesto' or strategic vision, but also relies on allegiances across the partnership.

It follows that being a 'lifer' confers advantage in the CEO election process. The final shortlisted candidates in the 2020 CEO election were said to have had very similar backgrounds, experiences, and characteristics, having both worked their way up the ranks.

The overwhelming perception is that a new CEO appoints close, trusted colleagues to key internal roles. As a result, senior leaders may not necessarily have the right capability or experience for these roles but are expected, and likely, to demonstrate loyalty to the CEO.

While there has been a significant and successful focus on aspects of diversity and inclusion at PwC Australia in recent years, this has largely extended to social diversity as opposed to cognitive diversity. When leadership positions are assigned to people that senior leaders know and trust, with less priority given to capability-based criteria, the cognitive diversity at senior leadership levels may suffer.

When cognitive diversity is lacking, dialogue and decision-making is less conducive to dissenting voices and constructive challenge.[26] It appears this has been the case at PwC Australia. It was commonly reported that there needs to be a greater diversity of views, particularly amongst the senior leadership groups.

6.2.6 There is a weak challenger culture, underpinned by a fear of negative implications for reputation and career prospects, which inhibits the escalation of issues and the effectiveness of risk management and governance

In recent years, there has been effort to enhance psychological safety at PwC Australia through a 'Speak Up' campaign that encourages people to "speak up, listen and follow up" when they see workplace behaviour misaligned with values or behaviour that does not feel right.[27] In general,

[26] Bourke, J. (2016). *Which Two Heads Are Better Than One?: How Diverse Teams Create Breakthrough Ideas and Make Smarter Decisions*. Australian Institute of Company Directors.
[27] *PwC Australia Transparency Report FY22*.

survey data from the past two years indicates that people do feel safe and empowered to speak up on certain issues.

In 2020, PwC Australia established a People Council comprising of staff representatives from across the firm, with an open invitation from the CEO to give "people a voice". People Council members reported feeling the expectation, and a level of comfort, to speak up about firm-wide issues and to propose solutions.

The desire and willingness to contribute to organisational thinking and decisions, from a psychological safety perspective, indicates a high degree of contributor safety.[28] 'Contributor safety' differs from the highest level of psychological safety, which is known as 'challenger safety'. Challenger safety is needed to disrupt the status quo. It is present when people feel safe to question and challenge the plans, behaviours, and ways of working of others, particularly those in authority.[29] To achieve challenger safety, there must be a strong balance of mutual respect, a willingness to experience inter-personnel discomfort to challenge and to be challenged, and inherent permission to challenge (both explicit and implicit) within the culture and role modelled by senior leaders.

Challenger safety does not consistently exist across PwC Australia. Interviewees, focus groups and internal culture reviews confirm there is a fear of challenging others in a culture that respects hierarchy, values relationships and harmony, and avoids conflict and uncomfortable conversations:

> *bravery is limited when individuals feel speaking up is a career limiting move. There is a hierarchy of bravery, and you have to tread carefully*

The unwillingness to challenge cascades from the 'top'. At PwC Australia, the power of the CEO is significant, in part due to the power conferred under the Partnership Agreement and the mandate provided through the election by the partners. The universal view was that, in recent years, neither the Executive Board nor the Board of Partners sufficiently challenged the CEO. These dynamics, and the structural drivers, are discussed in further detail in Chapter 2: *Role of the Board of Partners* and Chapter 3: *Senior Leadership Oversight*.

Internal culture reviews indicate that the weak challenger culture is driven by fear of negatively impacting career prospects and perception sensitivity. People are worried what others will think of them and that expressing dissenting views may affect their performance. This belief is reinforced through stories told of people who had the courage to challenge but experienced negative consequences as a result.

This dynamic was equally evident within the partner group, and frequently described as a tendency to avoid conflict. It was reported that avoidance of challenge is common and that aberrant behaviour is tolerated through a 'bystander effect' as a result. This in turn inhibits the escalation of issues and the effectiveness of risk management and governance.

6.2.7 The tendency of a 'good news' culture overshadows opportunities for reflection and learning from mistakes

A preparedness to discuss and learn from mistakes and near misses at PwC Australia is not consistently role-modelled from the top. Instead, there is a focus on optimism and communication of 'good news' and stories of success.

When an overly collegial culture combines with an overall reluctance to challenge, holding fellow partners to account for their behaviour is put under significant pressure. This is discussed in further detail in Chapter 7: *Remuneration and Consequence Management*.

The firm claims an intent to celebrate failure and learnings as well as success, and an aspiration to "foster a culture of transparency and trust for [our] people through enhanced communication and reporting on ethics and business conduct matters".

[28] Clark, T.R. (2020). *The 4 Stages of Psychological Safety: Defining the Path to Inclusion and Innovation*. Berrett-Koehler Publishers.
[29] Clark (2020) *The 4 Stages of Psychological Safety*.

However, conversations and communications are generally skewed to positive outcomes. In Assurance, it was noted that there is an effort to share issues, mistakes and learnings to foster an approach of continuous learning. This approach is not typical across the wider firm.

A key driver of a 'good news' culture has been the focus on growth, wins and revenue. In recent years, there has rarely been talk about losses or near misses. Instead, when issues have arisen, senior leadership has been criticised for a tendency to "speak in riddles", communicating little, other than reassurance that things are "being managed".

The Review revealed a strong disinclination to discuss or collaborate broadly on mistakes or difficult issues. It was widely reported that such matters, including TPMs, are managed in a relatively closed manner, and resolved quietly by a small few. When questions have been asked, there has been a lack of transparency, and information has been withheld, including on the basis of legalities and the "black box" of the OGC.

A key enabler for building an ethical culture is the ability to share ethical and business conduct related mistakes and organisational learnings. In PwC Canada, for example, partners are provided with data and information about incidents including the outcomes of investigations and consequences applied. This transparency sends clear messages about the behaviour that is expected, and will be tolerated, and how people will be held to account when breaches of ethics and integrity occur. The importance of communicating about these matters and demonstrating accountability in action, and related findings and recommendations, are discussed in further detail in Chapter 7: *Remuneration and Consequence Management*.

People at PwC Australia tend to be perfectionistic and avoid talking about mistakes for fear of it making them "look weak". Saying no or asking for help is seen as a last resort as people perceive that they are expected to be capable and in control.

The pace of work at PwC Australia also drives a strong task-focus with reduced space for reflection and learning. While there may be an intention to undertake project retrospectives, it was reported that in reality these often do not occur, as team members immediately roll onto the next fast-paced engagement.

6.3 Recommendations

Recommendation 17:

Implement program of work to embed focus on purpose and values

Ensure the firm's revised strategy demonstrates a commitment to restoring trust internally and externally, and that the strategy implementation plan includes a program of work and specific initiatives to embed purpose and values

Recommendation 18:

Conduct gap analysis to a firm-wide target culture focused on restoring trust

Develop a firm-wide target culture focused on the behaviours, mindsets and symbols required to rebuild trust, including:

- social responsibility and long-term value creation
- ethical conduct and decision-making
- constructive challenge and debate
- accountability
- collaboration to bridge silos, and support firm-wide behaviours and oversight
- reflection, sharing and learning from near-misses and mistakes

Conduct a gap analysis of the current to target firm-wide culture and identify cultural inhibitors

Recommendation 19:

Embed a challenger culture with action and 'tone from the top'

Reinforce the responsibilities of the CEO, Board of Partners, senior leadership and all partners for role-modelling, communicating and embedding a challenger culture and a willingness for senior leaders to hold each other to account, strengthened through firm-wide operating rhythms, 'tone from the top', symbols and processes

Recommendation 20:

Reduce relationship biases for senior roles

Establish and publish protocols to ensure processes for senior leadership appointments enable expressions of interest (where appropriate) and are underpinned by broader capability-based selection criteria, including values-alignment and ethical conduct, and greater cognitive diversity

Section C

Accountability

7 Remuneration and Consequence Management

7.1 Overview

A clear understanding of roles, responsibilities and accountabilities within an organisation is critical to ensuring the effectiveness of its governance and accountability arrangements. A lack of accountability in an organisation will exist where it is difficult to identify who is charged with control or influence over activities or decisions.

Remuneration and consequence management frameworks provide mechanisms to reinforce individual and collective accountabilities. These frameworks should drive performance, incentivise behaviours aligned with an organisation's purpose and values and risk appetite, and disincentivise behaviours that are not aligned. They also serve to ensure fair and equitable outcomes for behaviours that are not aligned with these expectations.

Without frameworks that provide the levers to apply when things go wrong, or poor decisions are made, it can be difficult for an organisation to determine how to 'hold people to account' or to do so in a consistent manner. Balanced and well-designed remuneration and consequence management frameworks are also therefore important for ensuring accountability.

Finally, the ability of an organisation to identify issues, and its preparedness to investigate, are also fundamentally important to accountability. As described above, a clear understanding of responsibilities and accountabilities, and frameworks that are balanced and robust in design are both necessary. However, if the organisation does not consistently capture issues, nor have a culture that supports applying consequence management consistent with its commitments, there will likely be a lack of accountability.

Staff performance and remuneration

For PwC Australia staff (non-partners), the annual performance and remuneration review process is extensive. It runs annually from March to August, including phases of self-evaluation, calibration and remuneration and incentive review. As set out in the guidance provided to people leaders, there is no clear-cut formulae for assessing staff performance. Assessment is made of a staff member's impact, behaviours (including how PwC values are brought to life in their work) and performance against specified metrics, including business-specific metrics and mandatory training requirements.

Total remuneration for staff is comprised of both a fixed element (salary and superannuation) and a variable component. The variable or 'annual bonus' element is determined by reference to individual performance, as well as Line of Service performance and whole of firm performance. Team leaders play a significant role in assessing the performance and outcomes of their staff and calibration processes are in place to address fairness and equity.

PwC Australia's frameworks relating to staff performance and remuneration have not been the primary focus of detailed analysis in the Review. Overall, the frameworks appear fit-for purpose and include consideration of staff behaviours, alignment to firm values and compliance requirements.

Partner performance and remuneration

The Review has predominantly focused on the performance and remuneration frameworks, and the manner in which these frameworks incentivise appropriate behaviours, as they relate to the partners of PwC Australia.

The firm's Partnership Agreement provides the overarching framework for how partner performance is evaluated and the income of the firm is distributed. The firm's Partner Evaluation and Income Scheme (**PEIS**) policy provides more detail on the framework.

Under the PEIS policy, partners agree a personal plan for each annual performance review period in consultation with their assigned 'Primary Reviewing Partner' (**PRP**). The CSP (or CEO) prepares a personal plan and provides it to the Board of Partners.

PwC Australia advised that partners are measured against a range of firm-wide, business-unit level and personal goals that are set at the start of each year in their personal plans. These will generally include financial and non-financial metrics. For example, partner metrics might include risk & quality, financial metrics, feedback from a partner's PRP, people engagement, diversity and inclusion, contributions to the firm and Line of Service specific measures (which vary significantly between businesses but are typically non-financial). At the end of each performance review period, a partner's performance is assessed by their business leader, in conjunction with their PRP. The Board of Partners, after consultation with the CEO, sets the CEO's performance rating and any individual award for the performance review period, with input from the PwC network.

A partner's final profit distribution for the year reflects a range of adjustments, which can be positive or negative, including for (i) a 'Needs Improvement' performance rating, (ii) behaviours and outcomes relating to risk and quality, and (iii) professional behaviours with regard to the firm's values. Adjustment categories are mutually exclusive so negative adjustments across the various categories can result in cumulative adjustments.

In April 2023, in an internal paper PwC Australia indicated its intention to more appropriately align the quantum of negative adjustments relating to partner related behavioural and values breaches with amounts paid as awards in recent PEIS processes.

PwC Australia does not currently have mechanisms for the deferral of incentives to partners, or for the clawback of rewards when poor conduct is later revealed.

Each year PwC Australia releases to the partnership a report that provides various outcomes of the performance review. These include total target income and profit distribution per partner, partners who received an 'Exceptional' performance rating, with the amount and reasons, and partners who received a discretionary performance award, with the amount and reasons. It is understood that the firm does not release detail regarding 'Needs improvement' performance ratings.

Consequence management frameworks

PwC Australia has consequence management frameworks intended to align to the PwC Code of Conduct and the firm's purpose statement. These frameworks are designed to reinforce PwC Australia's commitment to complying with relevant standards, ethics and professional codes.

PwC Australia's consequence management frameworks provide for a range of non-financial consequences for both partners and staff. Consequences are dependent on the severity of conduct, and include remedial training, reduction in performance rating, counselling or, for the most severe cases, termination of employment.

For partners, however, any risk or conduct-related matters that contravene the PwC Code of Conduct or other standards may also have financial consequences under the remuneration process. In particular, breaches may result in a downward adjustment to income allocations. The PEIS policy outlines how these financial consequences apply as part of a partner's annual performance assessment.

The Risk & Quality team of each Line of Service provides input into the process for the annual assessment of partner performance through metrics relating to matters such as compliance with policies on independence, confidentiality, conflicts and quality.[30] Positive behaviours and conduct are also recognised and rewarded. For example, in FY22, 44 partners did not 'meet expectations' and received a penalty, and 49 partners received a reward for 'exceeding expectations'.

PwC Australia advised the Review that the consequence management and grievance policies were updated in June 2021 and August 2022 to "more comprehensively address allegations of poor behaviours in a transparent, timely and proportionate manner". PwC Australia also advised the Review that penalties may be applied for 'bystanders' to negative behaviours and leaders in the relevant chain of command, as well as to individuals involved in breaches, to reinforce expected behaviours.

PwC Australia noted in its response to the Senate Inquiry[31] that ten partner misconduct matters were raised in FY23 (compared with ten in FY22, eight in FY21 and fifteen in FY20). Across the organisation (at all levels), there were 35 serious misconduct matters heard by the PEC Panel in FY22, of which 29% were matters relating to partner conduct.

Role of the PEIS Committee

The role of the PEIS Committee is to assist the Board of Partners in discharging its responsibilities under the Partnership Agreement in relation to the PEIS. This includes making recommendations to the Board of Partners as to whether the scheme has been properly applied by management. The PEIS Committee also makes recommendations to the Board of Partners on matters such as the approval of the firm's target income, award pools, fixed share partner incomes and responsibility rating bands for the coming year. The Board of Partners is responsible for the final approval of PEIS principles and application of the PEIS.

Relevant inputs into the annual PEIS process for each partner include a Line of Service rating, a Risk & Quality rating and any PEC Panel adjustment outcomes for behaviours and values. The Line of Service ratings are initially proposed by each Line of Service leadership team. The Risk & Quality ratings include consideration of qualitative and quantitative criteria relating to a range of matters and requirements, including quality, independence, external reviews, and compliance with network standards and local policies. The Line of Service ratings and Risk & Quality ratings are subject to a review and moderation session at the Executive Board.

The PEIS Committee also reviews data on substantiated breaches of values and behaviours by partners as determined by the PEC Panel. The PEC Panel reviews the most serious category of conduct breaches (i.e., 'deliberate, reckless or unlawful conduct or breach of standards'), and determines non-financial and financial consequences for substantiated breaches.

On 3 July 2023, PwC Australia announced that, following an investigation, it had exited, or was in the process of exiting, eight partners from the partnership for breaching professional standards and leadership and governance failures.[32]

7.2 Findings

7.2.1 Short-term financial results and individual targets may be over-emphasised in the partner performance review process

Overall, the partner performance and remuneration frameworks appear reasonable, well-understood and fit-for-purpose. The various strategic and operational goals that are intended to be covered within a partner performance plan essentially create a 'balanced scorecard', designed to help ensure that no single area is over-emphasised in the review process.

However, despite the range of metrics and goals, the common perception of interviewees and focus group participants was that financial measures (and especially revenue) receive the greatest focus in the

[30] PwC Australia Senate Inquiry submission (2023, April).

[31] PwC response to Questions on Notice, Senate Finance and Public Administration References Committee (2023, July 7).

[32] PwC Australia. (2023, July 3). *PwC Australia exits eight partners for professional or governance breaches* [Media Release]. https://www.pwc.com.au/media/2023/pwc-australia-exits-eight-partners-for-professional-or-governance-breaches.html

assessment process. Interviewees also confirmed that financial measures are typically based on in-year outcomes. Participants in focus groups commented that the financial targets in partner performance plans tend to reflect individual rather than team results, and there is inconsistent attention given across the Lines of Service to collaboration and contribution to the firm as a whole.

The emphasis on individual, rather than collective, success increases the risk that partners focus on individual financial performance rather than the financial health and sustainability of the firm.

7.2.2 The partner performance review process could benefit from additional 'checks and balances' to mitigate against normal human biases

Partner remuneration outcomes are determined by a process that is both qualitative and quantitative. It incorporates Line of Service elements, a Risk & Quality overlay and various other considerations, with the application of a mechanism for percentage adjustments.

Nevertheless, the process is susceptible to human biases. For example, there is potential for remuneration outcomes to be influenced by the tenure, seniority or status of a partner's PRP involved in the review process.

The PEIS Committee utilises data analysis to identify and help mitigate against biases (e.g., gender, ethnicity or location), and to identify anomalies or trends that might suggest lack of fairness or equity. However, remuneration review forums are comprised of partners who are themselves subject to the review process. Human biases may therefore be at play.

There may be opportunity for additional cross-Line of Service or other independent challenge in the moderation processes for partner remuneration. This might mitigate further against such biases, and the loyalties that may exist within Lines of Service or arise from PRP relationships.

7.2.3 Challenges in consistently identifying ethical business conduct issues, and an inconsistency in the appetite to investigate conduct, are impediments to ensuring effective accountability

While PwC Australia has reasonable performance and consequence management frameworks and levers, there are gaps in mechanisms for capturing the conduct that should be factored into the review process. The implications of the lack of an overarching issues management framework, or clear understanding of definitions and roles and responsibilities relating to ethical and business conduct issues, is discussed in detail in Chapter 5: *Issues Management*.

Interviewees agreed that the PEIS process is likely to be missing information relating to business conduct issues, as distinct from workplace behaviour, or personal conduct issues. Similar challenges were also previously identified in a 2021 review conducted by the firm. Another internal report in 2022 noted there is a "missed opportunity" to obtain a complete view of conduct matters as a result of these being addressed at a Line of Service level.

In the FY22 cycle, the PEIS Committee received information through the Risk & Quality review process on breaches of independence and unapproved external appointments, which may encompass some types of conflicts of interest. It is noted that it does not appear that the PEIS Committee received information on any business conduct matters outside of those identified in the Risk & Quality review process.

In addition, while the mechanics of the remuneration and consequence management frameworks may theoretically be sound, it remains unclear whether issues are consistently identified, investigated and penalised. When issues are public, there are examples of PwC Australia taking a firm approach to consequence management. The appetite to do so is less clear when matters are not widely known.

Following an incident involving racism at a work trivia night, PwC Australia investigated and the CEO set a clear ‘tone from the top’ on expectations. An external law firm conducted the review and serious consequences were applied and communicated across the firm, including the termination of two employees, financial penalties for three partners and formal warnings for thirteen partners.[33]

However, some interviewees suggested that the public nature of the incident was a factor in the firm’s commitment to a thorough response. Interviewees also suggested that conduct misaligned with the firm’s values is not always called out, and that the firm struggles to deal with conduct issues when matters are not clear cut. It was suggested that the culture of “we have each other’s back” can make it uncomfortable to do so.

Notably, it seems clear from public disclosures in connection with the Senate Inquiry that a number of partners (and potentially other senior personnel) at PwC Australia were aware of potential breaches of confidentiality within the tax practice at least as early as March 2021 when the TPB commenced its investigation into PwC Australia.

The firm was managing the response to the TPB investigation into a former partner and PwC Australia from March 2021. However, the public record indicates that thorough internal investigations were not commenced into these matters, or the governance failings that followed, at that time. Those investigations, and the analysis of the related governance failings, were not commenced until May 2023.

Interviewees consistently reflected regret and even dismay that this did not occur considerably sooner, as “surely you would dig around if you were being asked questions”. Others alluded to what is commonly referred to as the ‘boiling frog’ phenomenon, inferring that perhaps the conduct was so close to what had been endorsed or tolerated that it did not get noticed, or actioned.

More generally, comments in focus groups as well as exit survey data provided by PwC Australia confirmed the perception that there is inconsistency in accountability practices:

> “
>
> *it is hard to stay at the firm when people aren’t being held accountable for poor behaviour*

7.2.4 There is a reluctance to be transparent about consequence management outcomes to enable effective learning loops and to disincentivise negative behaviour

The Review observed a culture that focuses on ‘good news’ and wins, with a tendency to avoid discussion about failures. This is discussed further in Chapter 6: *Culture*.

Similarly, it appears there is limited appetite to communicate information when partners (or staff) do not meet appropriate behavioural standards, including the actions taken by the firm to ensure fair and equitable outcomes under the relevant remuneration and consequence management frameworks.

Creating visibility across the firm of ‘accountability in action’ contributes to organisational learning and demonstrates the willingness of the firm to set behavioural expectations and hold people to account. Failure to communicate consequence management outcomes represents a missed opportunity to rebuild trust in the effectiveness of the firm’s accountability frameworks.

[33] PwC response to Questions on Notice (2023, July 7).

7.3 Recommendations

Recommendation 21:

Review partner performance management framework

Review the partner performance and consequence management frameworks and processes to ensure proper consideration of non-financial performance areas, including:

- develop principles to clarify how performance is assessed in a way that balances financial and non-financial performance
- ensure clearer firm-wide minimum standards and 'gate-openers' (e.g., behaviours linked to leadership, integrity and other key values)
- increase the size of financial penalties and negative adjustments for conduct and behavioural issues relative to positive adjustments, and communicate policies (and outcomes) firm-wide
- revise financial measures to include measures that extend beyond a single financial year, and more consistently reflect collaborative financial measures across all Lines of Service

Recommendation 22:

Strengthen partner remuneration process

Strengthen the partner remuneration review process with additional 'checks and balances' to ensure fairness and equity, and reinforce the firm's commitment to accountability, including:

- enhance opportunities for cross-Line of Service or other independent input in partner remuneration moderation processes to help eliminate potential human biases
- implement additional deferral of remuneration and clawback mechanisms (including in connection with retired partner benefits)

Recommendation 23:

Provide greater transparency of behavioural expectations and consequence outcomes

Promote transparency and communication of key principles and minimum standards, as well as behavioural issues and consequence management outcomes for the partner cohort, to set clear expectations on conduct, improve firm-wide learning and demonstrate 'accountability in action'

Section D

Recommendations

Recommendations

This section of the report consolidates the specific recommendations that have been identified to address the gaps and shortcomings observed in the Review. These recommendations have also been included within the preceding Chapters 2 to 7, following the related findings.

As acknowledged in the Executive Summary, many of the recommendations will necessarily take time to implement, for example, identifying suitable independent members for the Board and an independent Chair. The Independent Expert notes the appointment of a new CEO together with the commitments announced by PwC Australia in relation to its response to events impacting the firm over the last several months. Initiatives to respond to the recommendations in this report should be implemented in conjunction with work that is already underway to strengthen governance, culture and accountability to ensure an efficient and co-ordinated approach. The firm should look to leverage internal capabilities where better practices exist within Lines of Service. There should be clear accountabilities, milestones and monitoring of progress in delivering the remedial program of work.

SECTION A: GOVERNANCE

Role of the Board of Partners

Recommendation 1:
Restructure the Board of Partners to ensure adequate independence

Restructure the Board of Partners (the **Board**) to ensure it has more appropriate independence, and provides more effective oversight of the operations of the firm, including:

- at least three (or preferably a majority of) independent non-executive members
- an independent non-executive Chair

Recommendation 2:
Clarify and restate the governance role of the Board

Reformulate the roles and responsibilities of the Board to ensure it dedicates proper focus to a broad range of governance and oversight responsibilities, including:

- define the remit of the Board as the ultimate governing body (as distinguished from the Executive Board as the firm's senior executive leadership team), to avoid confusion about the oversight role of the Board
- reform the committee structure of the Board to better support it specifically with discharging its extensive responsibilities relating to partner matters
- expand the remit of the Leadership, Succession and Nominations Committee to include nominations for all members of the Board (partner and independent members), and the related succession planning
- update (and periodically review) the Partnership Agreement, Board Charter and the various Committee terms of reference to better articulate governance and oversight roles and responsibilities more consistent with the practices of an ASX-listed entity
- enhance forward agenda planning, decision-making and meeting practices to ensure proper attention to governance matters, including strategy, risk and culture, more consistent with the practices of a well-functioning ASX-listed entity

Recommendation 3:
Revise the CEO appointment process

Revise the electoral model relating to the appointment of the Country Senior Partner, or CEO, in particular to improve the accountability of the CEO to the Board, including by:

- ensuring the Board has express authority to appoint and remove the CEO
- consulting with representatives of the PwC global network in the CEO appointment process

Recommendation 4:
Develop a Board skills matrix and induction and development programs

Develop (and periodically review) a skills matrix for the Board (and its Committees), including:

- determine requisite governance skills and experience and cognitive diversity, to support its re-composition as an effective governance body
- implement induction and Board professional development programs to uplift governance skills and expertise of all members

Recommendation 5:
Design and implement Board succession planning

Design and implement succession planning for the Board, its Committees and the respective Chairs, utilising the Board skills matrix, with reference to the appropriate tenure of members

Recommendation 6:
Regularly review Board effectiveness

Undertake a more rigorous periodic review of the performance and effectiveness of the Board (including every three years using an external facilitator to conduct the review, with external benchmarking)

Senior Leadership Oversight

Recommendation 7:

Define and formalise the role of the senior executive forum

Define the role, and responsibilities and accountabilities of the Executive Board as the senior executive forum of the firm in a charter or terms of reference, including:

- distinguish key areas where the Executive Board must be engaged in decision-making or have visibility of matters, and matters for which the Lines of Service have decision-making responsibility
- ensure firm-wide working groups, forums, panels and councils are properly constituted and co-ordinated to better support the role, and responsibilities and accountabilities, of the Executive Board, and implement clearer delegations and escalations between these groups and the Executive Board to reduce over-reliance on informal channels
- reflect the role, and responsibilities and accountabilities, of members of the Executive Board in performance review and consequence management processes, including in particular their accountabilities for risk

Recommendation 8:

Improve operating and decision-making disciplines of the senior executive forum

Implement more rigorous operating practices and decision-making for the CEO and Executive Board to ensure more effective management of firm-wide matters, including:

- develop more formal, structured meeting protocols (forward planning, agendas, requirements for papers, cadence and time allocated to complex or risk-related agenda items)
- improve the discipline in documenting decisions, matters arising and action items, including to support tracking and monitoring of execution of decisions by the CEO and Executive Board
- ensure more comprehensive, insightful and timely reporting from firm-wide working groups, councils, panels and other forums to enhance visibility (and escalation) of firm-wide matters, and better clarify the recommendations to, or actions requested of, the Executive Board

Risk Governance and Compliance Frameworks

Recommendation 9:
Substantially improve enterprise risk management capability

Elevate the 'voice of risk' at the whole of firm level by improving capacity, capability and expertise in enterprise risk management, including:

- recruit skilled risk resources and enhance training for the central risk function
- eliminate 'dual hatting' of partners with risk responsibilities, to ensure sufficient focus on risk management and avoid potential conflicts of interest

Recommendation 10:
Embed clearer accountabilities for risk across the firm

Create a more robust enterprise-wide approach to risk by ensuring the three lines of defence model is more effectively embedded, consistent with external best practice, including:

- ensure clearer responsibilities and accountabilities for risk management across the firm (and in the three lines of defence)
- drive greater consistency in risk processes and practices across the three Lines of Service

Recommendation 11:
Fix gaps in compliance risk management

Fix gaps in the management of compliance risk and uplift compliance maturity, including:

- prioritise the appointment of a senior and dedicated Head of Compliance, with an appropriately senior reporting line (e.g., to the Chief Risk and Ethics Leader)
- develop a firm-wide compliance framework and approach to compliance breach reporting

Recommendation 12:
Improve functionality of the executive-level Risk sub-Committee and other risk-related forums

Develop clearer terms of reference for the Risk sub-Committee of the Executive Board and various other risk-related committees, councils, working groups and panels, including:

- clarify and reduce overlap, duplication and internal confusion as to the respective roles and responsibilities of these risk-related forums
- ensure proper collation and escalation of risk information and insights to the Executive Board (and the Board of Partners) to enable debate, constructive challenge and a better enterprise-lens in decision-making

Recommendation 13:
Strengthen firm-wide approach to conflicts of interest

Implement an overarching conflicts of interest framework to consistently capture actual, potential and perceived firm-wide conflicts, supported by better training on conflicts to drive capability and behavioural change

Issues Management

Recommendation 14:
Improve focus on issues management

Implement an overarching issues management framework that enables consistent identification, escalation and monitoring of incidents and issues across the firm (especially conduct issues), including:

- clarify senior leadership accountabilities for monitoring specific issues
- increase time allocated in meetings (including Executive Board and Board of Partners) to review material and longstanding issues
- develop more robust issue analysis and reporting of insights
- improve transparency of issues and outcomes across the firm to drive learning loops and enhance risk culture

Recommendation 15:
Redefine and clarify accountabilities for conduct risk

Develop and embed a firm-wide framework and accountabilities for conduct risk, to better clarify the approach to both personal and business conduct, including:

- redefine the role and remit of the People & Ethical Conduct Panel
- improve training to strengthen the understanding of personal and business conduct issues
- develop clearer channels or protocols for (in particular) capture of business conduct issues, to enhance data integrity
- clarify delegations by, and escalations to, the Board of Partners relating to conduct issues (and improve quality of reporting to enhance oversight and drive a ‘conduct risk-aware’ culture)

Recommendation 16:
Improve rigour of regulatory engagement

Review firm-wide approach to regulatory engagement to improve rigour in regulatory engagement (consistent with external best practice) and enhance oversight by the Board of Partners, including:

- appoint a senior and dedicated Head of Regulatory Engagement, with an appropriately senior reporting line (e.g., to the Chief Risk and Ethics Leader)
- implement more consistent practices across the Lines of Service

SECTION B: CULTURE

Culture

Recommendation 17:
Implement program of work to embed focus on purpose and values

Ensure the firm's revised strategy demonstrates a commitment to restoring trust internally and externally, and that the strategy implementation plan includes a program of work and specific initiatives to embed purpose and values

Recommendation 18:
Conduct gap analysis to a firm-wide target culture focused on restoring trust

Develop a firm-wide target culture focused on the behaviours, mindsets and symbols required to rebuild trust, including:

- social responsibility and long-term value creation
- ethical conduct and decision-making
- constructive challenge and debate
- accountability
- collaboration to bridge silos, and support firm-wide behaviours and oversight
- reflection, sharing and learning from near-misses and mistakes

Conduct a gap analysis of the current to target firm-wide culture and identify cultural inhibitors

Recommendation 19:
Embed a challenger culture with action and 'tone from the top'

Reinforce the responsibilities of the CEO, Board of Partners, senior leadership and all partners for role-modelling, communicating and embedding a challenger culture and a willingness for senior leaders to hold each other to account, strengthened through firm-wide operating rhythms, 'tone from the top', symbols and processes

Recommendation 20:
Reduce relationship biases for senior roles

Establish and publish protocols to ensure processes for senior leadership appointments enable expressions of interest (where appropriate) and are underpinned by broader capability-based selection criteria, including values-alignment and ethical conduct, and greater cognitive diversity

SECTION C: ACCOUNTABILITY

Remuneration and Consequence Management

Recommendation 21:

Review partner performance management framework

Review the partner performance and consequence management frameworks and processes to ensure proper consideration of non-financial performance areas, including:

- develop principles to clarify how performance is assessed in a way that balances financial and non-financial performance
- ensure clearer firm-wide minimum standards and 'gate-openers' (e.g., behaviours linked to leadership, integrity and other key values)
- increase the size of financial penalties and negative adjustments for conduct and behavioural issues relative to positive adjustments, and communicate policies (and outcomes) firm-wide
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Recommendation 22:

Strengthen partner remuneration process

Strengthen the partner remuneration review process with additional 'checks and balances' to ensure fairness and equity, and reinforce the firm's commitment to accountability, including:

- enhance opportunities for cross-Line of Service or other independent input in partner remuneration moderation processes to help eliminate potential human biases
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Recommendation 23:

Provide greater transparency of behavioural expectations and consequence outcomes

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Appendices

Appendix A: Terms of Reference for the Review

Confidential

pwc

Terms of reference for the Independent Review on Governance, Accountability and Culture

Background

On 9 March 2023, the Senate referred an inquiry into the management and assurance of integrity by Consulting Services provided to the Federal Government for inquiry and report by 26 September 2023 (the Inquiry). In response to these matters and in line with announcements PricewaterhouseCoopers (PwC) is seeking to undertake a review of frameworks and practices relating to Governance, Accountability and Culture (the Review).

Scope

PwC will appoint an Independent Expert to undertake the Review of the following key areas of focus:

- *Governance* – The roles and responsibilities of key governance boards/committees and the way in which decisions are made, including how financial objectives, values and strategic priorities have an impact on decision-making and risk-management, and how decisions, once made, are implemented.
- *Accountability* – The way in which partners and staff discharge their roles and responsibilities both on an individual and collective basis, the remuneration and incentive arrangements and their impact on accountabilities, and the application of consequence management.
- *Culture* – The system of values and behaviours throughout PwC that shape the collective approach to managing risk, making decisions and our stakeholders.

It is expected the Review considers the areas of focus outlined below, feedback from the Senate Inquiry and the outcomes of the Bruce Quigley review into the design effectiveness of tax governance and internal control framework.

The assessment of governance, accountability and culture is to be completed by reference to the point of time at which the Expert commences their fieldwork. However, we recognise documentation and other artefacts relating to specific matters may be required to inform the findings.

Approach

It is expected that the Independent Expert would undertake a range of activities to evaluate to Governance, Accountability and Culture arrangements including documentation review, interviews, case studies and focus groups to:

- assess the strengths and shortcomings regarding the embedment and effectiveness of PwC's governance, accountability and culture frameworks, arrangements and practices;
- develop findings for PwC to address the observed gaps in culture, governance and accountability.

It is expected the Review considers the assessment considerations outlined in Appendix A.

Deliverables

The key outcome of the Review would be a written report by 18 August 2023 (or such other date as agreed) which sets out the Expert's:

- observations and findings in relation to PwC's governance, accountability and culture arrangements
- recommendations as to how to address the above observations and findings.

Conflicts of Interest

PwC requires confirmation that you or your firm do not have any conflict of interest which may adversely affect your ability to perform the Review services.

Appendix A - Assessment Considerations

Focus Area	*Description*
Role of the Board	• Governance structure including composition, diversity of skill and experience of members • Appointment and selection processes • The Board operations and rhythm • Roles, responsibilities, and accountabilities • Reporting, information, and escalation of issues from and to management (including of the related tax matters) • The effectiveness of Board scrutiny and challenge • Coordination between Board Audit, Risk and Remuneration Committees • Ongoing review of Board effectiveness
Senior Leadership Oversight	• Clarity of accountability for management of the organisation • Appropriateness of risk oversight and escalation • Tone at the top / consistency of messaging with stated values • Appropriateness of investment prioritisation and governance (including approval) • Quality of management information to enable and evidence effective decision making • Customer/stakeholder focus in decision making and effective consideration of perceived and actual conflicts
Risk Governance and Conflicts of Interest	• Adequacy and maturity of risk management, ethics, compliance and conflicts frameworks and arrangements • Adequacy of risk, ethics and compliance structure and personnel (including capacity, capability, and reporting lines) • Clarity of accountabilities and delegations • Adequacy of risk, ethics and compliance training, education, and reinforcement • Appropriateness of risk systems and tools
Issues Management (with reference to recent tax matters)	• Assess adequacy of issues management, breaches, and processes for reporting to the regulator • Assess adequacy of the identification, management and reporting of trends and systemic issues • Effectiveness and adequacy of issues reporting • Adequacy of the regulatory engagement framework and approach • Effectiveness of the organisation in detecting, investigating, escalating, and remediating issues relating to the conduct of Partners / staff by reference to the PwC Code of Conduct and applicable professional standards.
Remuneration and Consequence Management	• Design of performance and remuneration framework including KPIs as well as both short and long term incentives • Adequacy of the linkage between KPIs (short and long-term) and performance outcomes incentivising the right behaviours and discouraging behaviours out of line with our values • Clarity and execution of consequence management framework and approach • Appropriateness of governance and oversight of remuneration outcomes • Do risk personnel have adequate stature to facilitate effective management of conflicts
Culture and Leadership	• Strategic clarity, tone from the top, and role modelling of desired behaviours at all levels • Extent to which the operating environment drives a proactive approach to risk management and ethical decision making • Reliance on people versus process strengths to management • Adequacy of recognition mechanisms in place that reinforce the desired behaviours • Adequacy of the culture of review and challenge

Appendix B: Independent Expert

Dr Switkowski is the former Chancellor of RMIT University and former Chairman of NBN Co, Suncorp Group, Crown Resorts, Australian Nuclear Science and Technology Organisation and of Opera Australia. He has also served as a non-executive director on the boards of Tabcorp, Healthscope, Oil Search, Lynas and Amcor.

Dr Switkowski has previously held positions as Chief Executive Officer and Managing Director of Telstra Corporation Limited and Optus Communications Ltd. He is a Fellow of the Australian Academy of Science, the Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

He previously led governance reviews for the Essendon FC (2013) and Westpac Banking Corporation (2020).

In 2014, Dr Switkowski was made an Officer of the Order of Australia in recognition of service to tertiary education administration, scientific organisations and the telecommunications sector, to business, and to the arts.

Appendix C:
Activities undertaken in the Review

The Review was conducted over approximately 14 weeks, commencing in late May 2023.

The Independent Expert, supported by a review team instructed by the Independent Expert, undertook a range of activities to inform the assessment of PwC Australia's governance, culture and accountability.

These activities included:

- **Documentation review** – review of over 1,300 documents submitted by PwC Australia for the purposes of the Review. These included the PwC Australia Partnership Agreement; Board and Board Committee charters, terms of reference and sample meeting materials; sample Executive Board and sub-committee meeting materials; frameworks; policies; audit reports; internal communications to staff; human resource data; culture data and culture review reports for different Lines of Service; and a range of other reports and artefacts relating to areas of interest.
- **Briefing sessions** – meetings with PwC Australia's partners, senior leaders and staff to understand PwC Australia's primary business lines and functional areas in addition to briefings with PwC Australia's external advisers in relation to other workstreams and activities.
- **Consultations** – over 90 consultations with senior leaders and partners from a range of business areas and functions across PwC Australia, approximately half of which involved interviews with current and former members of the Board of Partners and Executive Board. Interviews were also conducted with representatives of PwC global network leadership, and several other PwC network firms.
- **Focus groups** – 18 focus groups across multiple locations, including Sydney, Melbourne, Brisbane and Canberra, attended by associate level staff to partners, to gain further insights into the culture of PwC Australia.

Interviews were not conducted with regulators or other parties external to PwC Australia, except where specifically noted.

The Independent Expert acknowledges the support of the team that was co-ordinated and led by Bendelta in connection with the Review.

Appendix D:
Background Materials

Selection of reports referenced by the Independent Expert

- Australian Prudential Regulation Authority. (April 2018). *Prudential Inquiry into the Commonwealth Bank of Australia*.
- Department of the Prime Minister and Cabinet. (September 2019). *Our Public Service Our Future: Independent Review of the Australian Public Service.*
- National Australia Bank. (November 2018). *NAB Self-Assessment on Governance, Accountability and Culture.*
- Westpac Banking Corporation. (November 2018). *Governance, Accountability and Culture Self-Assessment: Westpac Banking Corporation.*
- Australian Securities & Investments Commission. (October 2019). *Corporate Governance Taskforce: Director and officer oversight of non-financial risk report.*

PwC Australia Senate Submissions – 2023[34]

- On 21 April 2023, PwC Australia made submissions to the Senate Standing Committees on Finance and Public Administration inquiry into management and assurance of integrity by consulting services.
- On 1 May 2023, PwC Australia made submissions in response to questions on notice from the Senate Finance and Public Administration References Committee.
- On 2 June 2023, PwC Australia made submissions in response to questions on notice from the Senate Finance and Public Administration References Committee.
- On 7 July 2023, PwC Australia made submissions in response to questions on notice from the Senate Finance and Public Administration References Committee.
- On 21 July 2023, PwC Australia made submissions in response to questions on notice from the Senate Finance and Public Administration References Committee.
- On 24 July 2023, PwC Australia made submissions in response to questions from the Parliament of NSW Public Accountability and Works Committee for the inquiry into the NSW Government's use and management of consulting services.

[34] Submissions that are publicly available as at 18 August 2023.

Glossary

Glossary

A

ASX	Australian Securities Exchange
APRA	Australian Prudential Regulation Authority
AQAB	Audit Quality Advisory Board
ATO	Australian Taxation Office

B

Board of Partners (or the **Board**)	The oversight body for PwC Australia, colloquially referred to as the Governance Board

C

CSP	Country Senior Partner, which is effectively the CEO role
CRO	Chief Risk Officer
CEO	Chief Executive Officer

E

Executive Board	The senior management forum for PwC Australia, including the CEO
ERM	Enterprise Risk Management

I

Independent Expert	Dr Ziggy Switkowski AO

K

KPI	Key Performance Indicators

L

Lines of Service	The three primary business lines of PwC Australia – Consulting, Financial Advisory and Assurance

N

Network Standard	PwC standards applying to the global network of PwC firms as part of the global network's risk management policies

O

OGC	Office of the General Counsel

P

PCAOB	US Public Company Accounting Oversight Board
PEC Panel	People & Ethical Conduct Panel
PRP	Primary Reviewing Partner
PEIS	Partner Evaluation and Income Scheme
PwC Australia	PricewaterhouseCoopers, the Australian partnership

Q

Quigley Review	A review of the design effectiveness of PwC Australia's tax governance and internal control framework conducted by former Australian Taxation Office official Bruce Quigley in 2021

R

Review	Review undertaken by the Independent Expert, in relation to governance, culture and accountability frameworks and practices at PwC Australia, which is the subject of this report

S

Senate Inquiry	An inquiry into the management and assurance of integrity by consulting services provided to the Federal Government, for report by 30 November 2023

T

TPB	Tax Practitioners Board
TPM	Troublesome Practice Matters

Review of Governance, Culture and Accountability at PwC Australia

August 2023