

PwC: Design Effectiveness Review of Tax Governance and Internal Control Framework

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Glossary

ADM	Alternative Delivery Model
ACC	Annual Compliance Confirmation
ATO	Australian Taxation Office
BRP	Business Risk Partner
CEO	Chief Executive Officer
CMF	Consequence Management Framework
CR&E	Chief Risk & Ethics
CRO	Chief Risk Officer
ECR	Engagement Compliance Review
ERM	Enterprise Risk Management
FA	Financial Advisory
FALT	Financial Advisory Leadership Team
GTCOC	Global Tax Code of Conduct
HRE	Higher Risk Engagement
KYC	Know Your Client
LIQ	Leadership in Quality
LoS	Line of Service
LPP	Legal Professional Privilege
MLT	Management Leadership Team
OGC	Office of General Counsel
P&EC	People & Ethical Conduct
P&QL	People & Quality Leader
PwCA	PwC Australia
QAR	Quality Assurance Review
QMS	Quality Management System
QRP	Quality Review Partner
R&Q	Risk & Quality
RMP	Risk Management Partners
SME	Subject Matter Experts
TASA	Tax Agent Services Act 2009
TLS	Tax and Legal Services
TPB	Tax Practitioners Board
TPP	Tax Policy Panel
X-LoS	Cross Line of Service

Foreword

PwC is one of the four largest tax advisory firms in Australia. It traditionally was seen as a trusted advisor to many of the country's top tier companies with a reputation for being innovative and client focussed with progressive employment and diversity policies.

A much publicised event relating to PwC emerged early in 2023 that has had a significant impact on the firm requiring great effort to rebuild trust with clients, government, regulators, partners, staff and the community. The Tax Practitioners Board (TPB) had found that PwC Australia (PwCA) had failed to have in place adequate arrangements to manage conflicts of interest in relation to its tax practice (known as the 'TPB matter'). The finding related to the improper handling of confidential Treasury information beginning in 2014 and related failures in professional, ethical or leadership responsibilities. A senior partner had been sanctioned by the TPB and his licence to practice withheld for two years. A number of internal and external reviews and investigations (including by the Senate¹) were conducted. In particular, PwCA engaged Dr Ziggy Switkowski AO to undertake an independent review (the Switkowski Review) focussed on 'frameworks and practices relating to governance, culture and accountability that currently operate within the firm.'² The Switkowski Review identified several key shortcomings relating to governance, culture and accountability at PwCA that had arisen from the accumulation of poor practices over many years. PwCA is addressing all the recommendations in the Switkowski Review and has developed a detailed Action Plan to implement them (Appendix I).

PwCA is structured into three business lines (or lines of service) – Consulting, Financial Advisory (FA) and Assurance. The focus of the review that is the subject of this report is the second undertaken by the independent consultant to review the effectiveness of PwCA's **Tax Governance and Internal Control Framework** (the Control Framework) as it relates to the provision of tax services, a part of the FA Business. The focus of the Risk Governance and Compliance Frameworks in the Switkowski Review is primarily at the enterprise level. Importantly, the Switkowski Review found that PwCA's risk practices and systems focussed on quality and client delivery at the line of service level, but that at the enterprise level the controls were immature – lacking the stature, capability and rigour required. Whilst there are some findings and recommendations in the Switkowski Review that are relevant and identified in this report, the current review (2024 Review) is focussed on the Tax and Legal Services (TLS) business within the Financial Advisory (FA) Line of Service (LoS) – in particular the provision of tax services.

¹ The Senate Finance and Public Administration References Committee, Inquiry into management and assurance of integrity by consulting services .

² Dr Z E Switkowski AO, *Review of Governance, Culture and Accountability at PwC Australia*, August 2023.

Background

Under Australia's self-assessment system, taxpayers are responsible for their own tax affairs, however tax advisors play an important role in advising them in that regard. In recognition of this, the four largest tax advisory firms (Deloitte Australia, EY Australia, KPMG Australia and PwC Australia) developed the *Australian Tax Advisory Firm Governance, Best practice principles* (the Principles)³ in conjunction with the Australian Taxation Office (ATO).

The Principles were published on 22 August 2022 and require that a firm has a tax services system of quality management in place that is designed to enable compliance with the Principles.

The Principles apply to services provided in respect of Australian federal taxation laws by the firms that have adopted them. In addition to tax advisors having a legal obligation to act in the interests of their client, there are multiple legal, professional and regulatory requirements that provide strong external oversight together with appropriate penalties and sanctions. These include:

- Tax Agents Services Act 2009 (Cth) (TASA) administered by the TPB;
- Taxation Administration Act 1953 (Cth) administered by the ATO;
- Accounting Professional and Ethical Standards which, among other things, set the standards for the provision of quality and ethical 'Taxation Services'; and
- Legal Profession Uniform Law Australian Solicitors' Conduct Rules 2015 which contains measures relating to legal practitioners providing tax advice.

The Principles are not intended to conflict with any of these obligations nor override professional duties of advisors to their clients. In the event of any conflict, the general law or professional regulation shall prevail.

Principle 4.1.2 requires that the design effectiveness of a firm's relevant tax services system of quality management be independently reviewed at least every three years.

This is the second review by the independent consultant of PwC Australia's Tax Governance and Internal Control Framework – the first was completed in March 2021 (the 2021 Review)⁴ when the Principles were in draft form. The scope of the 2021 Review included the Tax and PwC Private (Private) businesses (specifically, the teams within Private that provide tax services), and involved an extensive review of internal documentation and interviews with leaders, partners and staff within the Tax and Private businesses. The 2021 Review considered the design effectiveness of the Tax governance and internal control framework and assessed whether it met the (at the time) draft "Large market tax advisor principles" (Advisor Principles). The 2021 Review was effectively a 'self-assessment' against the draft Advisor Principles in anticipation of and ahead of their formal agreement with the ATO. The methodology of the 2021 Review drew on the ATO's website guidance on 'Testing Control

³ The Best practice principles are at Appendix II.

⁴ Quigley, B., *PWC: Design Effectiveness Review of Tax Governance and Internal Control Framework*, March 2021.

Design Effectiveness' in the context of the tax governance framework of a large company recognising that there are different purposes and application between the ATO's guidance and PwCA's control framework. This second review, the 2024 Review, adopts the same methodology and scope as the 2021 Review.

Terms of Reference

Undertake a review of PwCA's Tax Governance and Internal Control Framework (the Control Framework) in accordance with the "*Australian Tax advisory firm governance, Best practice principles*" which were developed by the 4 largest tax advisory firms in conjunction with the ATO and published on 22 August 2022 (the Principles).

Assess whether the Control Framework includes suitable policies and controls covering the following key elements:

- Adoption and adherence to firm codes of conduct and related probity matters;
- Client acceptance;
- Engagement acceptance;
- Periodic review;
- Team competency;
- Engagement management and delivery;
- Opinion levels;
- Dealing with higher risk/higher significance engagements; and
- The framework should be supported by relevant training programs.

The independent consultant will undertake a design effectiveness review of PwCA's quality management system (QMS) for the provision of tax services. The review methodology should draw on the ATO's guidance on 'Testing control design effectiveness' in the context of the tax governance framework of a corporate taxpayer, while recognizing the difference in purpose and application.

The independent consultant will review relevant PwCA policies/materials (including in particular the QMS reference documentation submitted to PwC's Global TLS R&Q in September 2023), conduct meetings/discussions with key stakeholders and sample of partners/employees, and prepare a report containing findings and recommendations.

Whilst not specifically included in the terms of reference, the independent consultant reviewed the steps taken by PwCA in response to the recommendations made in the 2021 Review.

Review Methodology

Testing Control Effectiveness: ATO

The 2024 Review methodology drew on the Australian Taxation Office's (ATO) website guidance on 'Testing Control Design Effectiveness' in the context of the tax governance framework of a large company (tax control framework) recognising that there are different purposes and application between the ATO's guidance and PwCA's Control Framework.

The ATO guidance on testing and evaluating a large organisation's tax control framework provides for two components:

- Testing control design effectiveness; and
- Testing the operational effectiveness of a control.

The most common method for testing control design effectiveness according to the ATO guidance is to perform a walkthrough of the control processes, which includes the following actions:

- Conducting an inquiry of appropriate personnel;
- Observing the company's operations; and
- Inspecting relevant documentation and addressing the following objectives
 - understanding the flow of transactions including how those transactions are initiated, authorised, processed, recorded and treated;
 - identifying the points within the process at which a potential error is likely to occur; and
 - identifying the controls that have been implemented to address these potential errors.

The 2024 Review of PwCA's Control Framework included all of the above actions.

If the design effectiveness of a control is adequate and is expected to reduce the identified tax risk, the control should then be tested for operational effectiveness to determine whether controls have operated effectively. The ATO considers that a combination of methods can be used to determine control effectiveness:

- Re-performance provides the most evidence in determining operational effectiveness of a control;
- Examination/inspection tests provide the second-most amount of evidence;
- Observation provides the third-most amount of evidence; and
- Inquiry provides the least amount of evidence (inquiry alone does not provide sufficient evidence to support a conclusion about the effectiveness of a control).

The 2024 Review of PwCA's Control Framework included examination/inspection, observation and inquiry, however given the nature of the review, it did not include re-performance.

Document review and Interviews

As was the case with the 2021 Review, the independent consultant reviewed numerous Global and PwCA policies, guidelines and other materials, in particular documents provided for the PwC Global TLS R&Q review in September 2023 as part of the 2024 Review. These consisted of:

- Documents prepared for PwC reporting purposes in relation to the Quality Management System (QMS) for the Tax and Legal Services (TLS) business for FY23; and
- Documents prepared to demonstrate operational risk management and operational effectiveness of the TLS governance process, in accordance with the Principles.⁵

Interviews were conducted with a sample of PwCA partners and staff as well as senior ATO and TPB officers to get the ATO and TPBs perspectives. No clients or other stakeholders were interviewed.

There was limited opportunity to observe the operation of PwCA's Tax Policy Panel (TPP) as part of this 2024 Review although the independent consultant participated in two TPP meetings in the 2023 calendar year – one in person and one by phone.

The above document reviews, examination and observation, together with interview responses formed the basis for the assessment of PwCA's Control Framework.

⁵ Appendix III contains a list of documents made available by PwC for this review.

Response to recommendations in the report of the 2021 Review

The 2021 Review outlined seven recommendations for improvement to the effectiveness of PwCA’s Tax governance and internal control framework. Below is an assessment by the independent consultant of the status of addressing those recommendations including evidence supporting the status.

Recommendation		Status	Evidence
1.	The Business Risk Partner (BRP) commence discussions with the other professional firms and the ATO with the view to finalising the draft Adviser Principles by 30 June 2021.	Completed	The former BRP and others worked with the ATO to finalise the Principles (now known as Tax Advisory Firm Governance Best Practice Principles) which were published on 22 August 2022.
2.	The R&Q team, as part of the reassessment of the application of the R&Q Metrics process in FY21, review the appropriateness of the current criteria in assessing a person as either ‘Exceeding expectations’ or ‘Not meeting expectations’.	Completed	The FY21 partner R&Q performance assessment was reviewed, revised and implemented. In FY21, the formal ratings were expanded from 2 to 4 categories and detailed criteria formalised in relation to each category. In particular, what constitutes “High Performing” was determined and documented.
3.	As a part of reviewing the adequacy of the TPP triggers, the R&Q team and the BRP consider whether there are specific risks to one or other of the Tax or Private businesses only, and the HRE policies amended accordingly	Completed	<p>Specific Private triggers were added in at the time the Higher Risk Engagement Policy was refreshed in October 2022.</p> <p>A retired ATO Deputy Commissioner Private Wealth joined PwCA as a Managing Director in relation to Private Tax Engagements, and acts as the TPP Chair for Private Tax matters.</p> <p>Other triggers have been added throughout the year as matters arise, including additional TPP triggers for the s100A anti-avoidance provision, the principal purpose test for Multilateral instrument rules and the proposed new measures for intangibles.</p>

	Recommendation	Status	Evidence
4.	To provide greater independence (or perception of independence), that the Chair of the TPP re-examine how an external consultant could participate as an observer at a number of TPP calls/meetings during the year as initially proposed.	Partially completed	<p>It was proposed that an external consultant would review TPP matters and meet with the TPP Chair (and others) on a quarterly basis to run through key TPP matters and materials to obtain input/guidance. This only occurred on a few occasions in the three years since the 2021 Review.</p> <p>It was also proposed that the external consultant would be an observer at a number of TPP calls/meetings (target 10% of formal panels). This did not occur on many occasions in the three years since the 2021 Review. The independent consultant did participate in two Panel meetings in the 2023 calendar year – one by phone and one in person.</p> <p>The reason for not fully meeting these requirements provided by PwCA was a lack of matters requiring formal TPP panels. It is considered that a more achievable engagement with an external consultant should be developed which still retains the original intent of a level of independent review.</p>
5.	The BRP and R&Q team engage with the ATO to develop a range of indicators that the ATO considers would assist in assessing the effectiveness of the TPP.	Completed	The TPP Chair continually monitors TPP triggers, and the former FA BRP presented to the ATO on PwCA’s assessment of TPP effectiveness. In addition, an informal internal review of the TPP is conducted annually with findings and outcomes documented in an annual TPP Effectiveness Report included as part of the QMS documentation.
6.	The R&Q team ensures that every partner and business unit is subject to a QAR each year.	Completed	At the time of the 2021 Review, one third of partners and business units were subject to reviews under the Quality Assurance Review program (QAR) each year. A redesigned FA QAR Program was designed with around two thirds of all Engagement Leaders being subject to a review under the QAR program in FY21 with the program being fully implemented by FY22 with every Engagement Leader being subject to a review under the QAR program in both FY22 and FY23.

	Recommendation	Status	Evidence
7.	The BRP formalise a series of meetings (say every 3 to 6 months) to update the Second Commissioner and other senior ATO officers on the progress that PwCA has made, and continues to make, with respect to the Tax Governance and Internal Control Framework.	Partly Completed	<p>A number of meetings were conducted with the ATO Second Commissioner. However, they were not formalised and did not take place as often as the suggested 3 to 6 months. It is recommended that formalised meetings with the ATO Second Commissioner are scheduled to occur every 3 to 6 months on a go forward basis.</p> <p>In response to a recommendation (16.1) in the Switkowski Report, regulatory engagement has been strengthened by establishing central leadership and oversight to support business led engagement. The Chief Risk and Ethics (CR&E) Leader has overall ownership for regulatory engagement. The CEO, CR&E Leader and General Counsel are now involved in regulator dialogues alongside Business Leaders.</p>

Key Findings and Observations

It is considered that, at the LoS level, FA TLS has the appropriate Control Framework to address the key elements of operational risk management. There is a robust Quality Management System (QMS) in place consistent with PwC Global requirements. There are well documented policies and procedures in the Control Framework around key elements such as client acceptance, engagement acceptance and delivery. Upfront systems have been developed to help ensure that these policies and procedures are followed. They are also a focus of regular Engagement Compliance Reviews (ECRs) and the QAR program with outcomes of those reviews linked to the partner performance system.

A Higher Risk Engagement (HRE) policy forms a key element of the R&Q policy for the Australian Tax and Private businesses. The policy was updated in October 2022 to provide greater consistency across all of FA and improve the clarity around the HRE triggers. There is a fully functional Tax Policy Panel (TPP) that reviews high risk advice (per defined triggers) as part of the broader HRE policy and Complex Tax Advice Protocols/requirements which require 2nd partner reviews. Internal reviews have assessed the TPP to be effective however only a small percentage of referrals advance to a full panel meeting without an understanding of why.

The Principles provide sound guidance and best practice for large tax advisors providing complex tax advice. Senior ATO officers recognise and acknowledge the lead role that PwCA played in developing the Principles. PwCA has developed an effective Control Framework which is consistent with the principles and standards contained in the Principles. There is a high correlation between the Principles and the PwC Global Tax Code of Conduct (GTCOC). The standards and principles contained within the GTCOC are regularly communicated within the firm and reinforced in a number of ways with the Australian FA R&Q Team reporting on compliance annually.

The comprehensive Enterprise Risk Management (ERM) Framework approved (and reviewed annually) by the Governance Board Risk Committee reflects the firm's **commitment** to managing risk and how risk management activities are embedded in business practices, systems, processes and behaviours, at all levels of the firm. However, the Switkowski Review found that whilst PwCA's risk practices and systems focus on quality and client-delivery at the line of service level, 'the firm's risk and policy framework is overly complicated, with overlapping and rigid implementation of Network Standards, professional standards and local policies.'⁶ It recommended that the firm substantially improve enterprise risk management capability and embed clearer accountabilities for risk across the firm. In response, PwCA has appointed a full time Chief Risk and Ethics (CR&E) Leader reporting to the CEO and a Chief Risk Officer (CRO) with significant corporate experience to focus on enterprise-wide risk management, including a detailed capability assessment. Structural changes have also been made to Business Risk leadership and a detailed review of risk accountabilities is currently underway.

⁶ Switkowski, Z E, p.29.

The TPB matter has had a significant effect on the FA Business. In response to the TPB findings, several partners identified by PwCA as having been responsible, including from a leadership standpoint, for the confidentiality breaches or the failure to take appropriate action once the issues were identified, are no longer partners in the firm. This includes the FA Leader and the Business Risk Partner (BRP) requiring new leadership arrangements for the FA Business. The departure of the BRP in particular left a huge experience gap and directly impacted the remaining members of the R&Q Team, many of whom had been working with the BRP for several years.

The FA R&Q Leader is an experienced tax practitioner who has been in the role since 2015 and is supported by a team comprised of highly experienced, specialist resources. The FA R&Q Team has remained reasonably stable in recent times which has been instrumental in achieving good results. However, the resourcing of the risk function does not appear to have kept pace with the growth of the business.

The ATO has been concerned about certain PwCA behaviour in the past as outlined in the 2021 Review. Both PwCA and the ATO have been working to resolve issues and build better relations. ATO senior officers acknowledge that there have been improvements in relationships in recent times, however the TPB matter has again put pressure on PwCA's relationship with the ATO and the TPB. There is a degree of scepticism as to whether there will be a cultural shift of putting the firm's values before growth and profit. The measures for regulator engagement put in place by PwCA to address the Switkowski report should help to address this scepticism, however it will be important for the change in culture sought in the Action Plan to be demonstrated 'on the ground' by all engagement leaders and teams.

Having good relationships with the ATO and TPB will be even more important going forward with significant Government changes proposed to the governance framework impacting tax practitioners.

Recommendations

It is recommended that:

- A detailed review of resourcing, including the Business Risk Partner and Risk Management Partners' roles, be undertaken to ensure that it is adequate to meet the needs of the FA business, particularly in light of the additional focus on risk as a result of the TPB matter.
- A more achievable engagement with an external consultant be developed for the TPP which still retains the original intent of providing a level of independent review.
- Another senior partner is engaged with the TPP Chair in the triage process.
- Another column is included in the TPP documentation records stating the reason why a matter didn't go to a full panel.
- The Managing Director who chairs the TPP for the Private business clarify the term '*family group restructures*' in the Private business HRE triggers and communicate the outcome throughout the Private business.
- There be debriefs with other Engagement Quality Review (EQR) peer review partners to ensure consistency in approach to reviewing and rating files prior to the formal moderation process.
- A program of forced rotation of partners involved in EQR peer reviews be introduced.
- The R&Q Team invite overseas reviewers to participate in ECRs and the QAR program for the next round of reviews.

Australian Tax Advisory Firm Governance: Best Practice Principles

Under Australia's self-assessment system, taxpayers are responsible for their own tax affairs, however tax advisors play an important role in advising them in that regard. In recognition of this, the four largest tax advisory firms (Deloitte Australia, EY Australia, KPMG Australia and PwC Australia) developed the *Australian Tax Advisory Firm Governance, Best practice principles* (the Principles) in conjunction with the ATO.

The Principles were published on 22 August 2022 and require that a firm has a tax services system of quality management in place that is designed to enable compliance with the Principles. They provide an objective basis against which firms can test their governance of higher risk tax advisory services.

The Principles set out expectations of tax advisors, and are relevant to the giving of advice by tax advisors, on which a client is able to rely, which recommends or supports the implementation of a transaction or arrangement. There is a high correlation between the Principles and the PwC Global Tax Code of Conduct (GTCOC).

The Principles provide sound guidance and best practice for tax advisors providing complex advice to taxpayers. The ATO consider that the Principles are a positive step forward in the relationship of advisor firms that have adopted them and the ATO, and has complemented PwCA on the leadership role in finalising them.

PwCA published an annual statement confirming it has reasonable confidence that the policy and procedures, which facilitate compliance with the Principles, are operating effectively. They have compiled the document *PwC application of the Tax Advisory Firm Best Practice Principles for FY23*, to support that statement. The independent consultant has reviewed that document and other supporting documents and agrees that PwCA is complying with the policy and principles contained in the Principles.

A change that was made to the draft Principles was to allow for the three yearly independent review to be undertaken internally rather than by an external independent advisor. Whilst undertaking self-assessment reviews is to be encouraged for internal governance purposes, it is important that the three yearly review be undertaken externally to ensure both the independence and the perception of independence of the process. PwCA is committed to having reviews conducted externally. Whilst it is not in a position to change the Principles unilaterally, given its leadership role in developing the principles originally, it should impress upon the other professional firms, the importance of independent, external review.

TLS QMS Global Reporting Process

Overview

The PwC Network Standard for QMS and Risk Standards (the QMS Standard) has the following objectives:

‘Member firms shall establish through their lines of service quality and risk management systems and business processes that promote and facilitate the delivery of quality services and enable the firm and its personnel to meet applicable professional standards, regulatory and legal requirements and PwC Network Standards and policies.’

The Global TLS Risk and Quality (R&Q) Team provides guidance on the requirements for the development, implementation and monitoring of an appropriate QMS consistent with these objectives. The FA R&Q Team prepare a detailed report each year describing how PwCA complies with the Global requirements. The TLS QMS is subject to review and evaluation by a Subject Matter Expert (SME) from another Network firm. For FY22, the review was undertaken by the Canadian R&Q Tax Leader and subject to moderation by the Global Tax R&Q Leader.⁷ Each of the Requirements are rated as follows (see below):

- Requirement Exceeded;
- Requirement Met;
- Requirement Met with Exceptions;
- Requirement Not Met.

For FY22, PwCA’s TLS QMS achieved a rating of Requirement Exceeded for 5 of the 15 requirements and a rating of Requirement Met for the remaining 10 of the 15 requirements. An overall comment was made by the SME reviewer that ‘PwC Australia has exemplary documentation for all the 15 QMS requirements’.

There have been a number of key enhancements to the QMS since the 2021 Review furthering the level of assurance including:

- A refresh of the HRE Policy;
- An FA Quality dashboard;
- Leadership in Quality (LIQ) Surveys;
- Establishment of an Engagement Acceptance Panel (EAP);
- Updated Annual Compliance Confirmations (ACC) for HRE and TPP protocols;
- New acceptance and global system in Salesforce;
- Publication of an annual Transparency report;
- Report of Compliance with the Principles; and
- Refinement of risk profiling processes and documentation.

The FY23 TLS QMS contains fifteen requirements, nine of which are most relevant to this review.

⁷ The FY 23 review being undertaken by the United States R&Q Leader is not yet completed.

FY23 TLS QMS Requirements

The following TLS QMS requirements are considered to be the **most** relevant for this review:

- Requirement 1: Leadership Responsibility
- Requirement 2: Risk & Quality Leader
- Requirement 4: Accountability Framework
- Requirement 5: Global Tax Code of Conduct (GTCOC)
- Requirement 7: Client & Engagement acceptance
- Requirement 8: Human Capital
- Requirement 10: High Risk Engagements (HREs)
- Requirement 11: Engagement Completion Reviews (ECRs)
- Requirement 12: Quality Assurance Reviews (QARs).

Each of these requirements is discussed below.

Requirement 1: Leadership Responsibility

The firm's TLS leadership assumes ultimate responsibility for TLS LoS risk management, quality, tax policy, reputation and regulation.

Following the TPB's investigation and the recommendations of the Switkowski Review, there have been a number of changes to the firm's Executive Board (now known as the Management Leadership Team), Governance Board, as well as the Financial Advisory Leadership Team (FALT).

The changes most relevant to Leadership Responsibility for R&Q are discussed here. A new Chief Risk & Ethics (CR&E) Leader has been appointed to have responsibility for all aspects of ethics and compliance at the firm and to lead the implementation of the actions to address the Switkowski Review's recommendations. The position is a member of the Management Leadership Team (MLT) and reports to the Chief Executive Officer (CEO). Business Risk leadership now reports to the CR&E Leader, with dotted reporting lines to Business Leadership. An enterprise-wide Chief Risk Officer (CRO) with significant corporate experience has been appointed with the responsibilities and mandate to focus on enterprise risk management. An experienced senior partner was appointed to replace the departing FA Leader (and a member of the MLT) in May 2023 and another experienced partner was appointed to the role of FA People & Quality Leader (P&QL) in July 2023.⁸ That role has responsibility across all of FA. A new Business Risk Partner (BRP) for Tax has recently been appointed to replace the previous BRP who left the firm in May 2023. That position now reports to the CR&E Leader with dotted reporting lines to Business Leadership. The BRP is a senior partner responsible for risk management in the FA business and ensuring the risk management and quality frameworks are operating effectively.

⁸ That person has recently been promoted and a process is underway to appoint another experienced partner as the P&QL.

The 2021 Review found that TLS Leadership appropriately assumed ultimate responsibility for TLS LoS risk management, quality, tax policy, reputation and regulation. Senior Management had a strong focus on values, quality, accountability, risk, independence and the drive to manage stakeholder expectations. This was supported by strong communication at all levels, including numerous presentations and webcasts.

The structural changes outlined above improve enterprise risk management by embedding clearer accountabilities for risk across the firm. They in no way diminish the responsibility of the TLS Leadership. The FA Leader represents FA as a member of the MLT, the FA Leader, TLS Leader and FALT fully support the FA R&Q Leader (and team) in the implementation of the annual FA R&Q Annual Plan and Global reporting, specific FA R&Q priorities and focus areas and the FA R&Q Continuous Improvement Plan. The FA BRP and FA R&Q Leader continue to make regular presentations to the FALT in relation to R&Q matters.

In addition to structural changes mentioned above, there have been key changes to the QMS as they relate to the overall tax governance framework and provision of tax and legal services across Tax and Private businesses. Some of the more significant include:

- The implementation of a quarterly FA Quality Dashboard to provide an additional leadership reporting mechanism, with a focus on quality metrics and KPIs in relation to key strategic priorities and risk areas;
- Better R&Q communication with a monthly update (*R&Q Corner*) of R&Q matters sent to all staff; and
- Regular review (and reporting to Global) of the TLS practice to confirm leadership's review of the practice's risk assessment, client base, service offerings, large and HREs, technology, recruitment and succession planning, learning and development programs, and R&Q role/impact and effectiveness.

Requirement 1 was rated **Requirement Exceeded** by the SME reviewer for FY22 with a comment that 'As part of PwC Australia's strategic focus on quality the (sic) have developed an impressive quarterly Quality Dashboard (commencing from 3Q21)'.

Requirement 2: Risk & Quality Leader

The firm's TLS leadership has appointed an experienced TLS Risk & Quality leader and provides him/her with sufficient time, resources and authority to enable him/her to perform that role effectively.

The FA R&Q Leader is an experienced tax practitioner who has been in the role since 2015. He is a member of the Global TLS R&Q Leadership Team and is also the Asia Pacific Regional R&Q Leader with joint oversight for territories in the Asia Pacific region. The FA Leadership Team (FALT) provides support to the FA R&Q Leader as required in terms of supporting resourcing requests, access to teams and systems.

The FA R&Q Leader is supported by a team comprised of highly experienced, specialist resources. The FA R&Q Team has remained reasonably stable in recent times which has been instrumental in achieving good results. It is important that a high degree of stability is maintained given the emphasis given to R&Q matters in the Action Plan. A new Business Risk

Partner (BRP) for Tax has recently been appointed to replace the previous BRP who left the firm in May 2023. Under structural changes as a result of recommendations in the Switkowski Review, the BRP will report to the CR&E Leader with dotted reporting lines to Business Leadership. He will be devoting about fifty percent of his time to the BRP role, the rest of the time will be client facing. The Switkowski Review expressed concern with partners with senior risk roles and responsibilities also having market facing responsibilities. It referred to it as 'dual hatting' stating (at p.32) that 'dual hatting has the potential to impact the capacity of a partner to dedicate focus to risk responsibilities, which can weaken risk management capability.' The previous BRP had wide-ranging responsibilities in addition to his responsibility for risk management in the FA business and ensuring the risk management and quality frameworks are operating effectively, including leading regulatory engagement, TLS representative on the Cross Line of Service (X-LoS) Business Risk Council, Chair of the EAP and Chair of the TPP. Since his departure, some of those responsibilities have been devolved to the TLS Leader and FA R&Q Leader with a senior partner appointed as Chair of the TPP.

A team of Risk Management Partners (RMP) sit in the lines to act as a further resource for communicating risk and quality messages, learnings, training and updates to the business, and for assessing and managing business risk. This represents only a fraction of the RMP's time with the expectation that they devote only 50 hours annually to the role, the balance being market facing roles.

The resourcing of the FA risk function does not appear to have kept pace with the growth of the business, a conclusion also reached in the Switkowski Review with respect to the enterprise level. A review of the FA R&Q Team was undertaken in FY21 as a result of the Acceptance+ system implementation and the expansion of the Quality Review program and an additional resource was added in FY22. However, the introduction of new and expanded service offerings (e.g., Connected Compliance) and the commitment to strengthen risk in addressing recommendations in the Switkowski Review will add pressure on the FA R&Q Team.

Requirement 2 was rated **Requirement Met** by the SME reviewer for FY22.

It is recommended that a detailed review of resourcing, including the Business Risk Partner and Risk Management Partners' roles, be undertaken to ensure that it is adequate to meet the needs of the FA business, particularly in light of the additional focus on risk as a result of the TPB matter.

Requirement 4: Accountability Framework

The TLS LoS has an accountability framework that takes into account risk and quality objectives and that is consistently implemented.

PwCA's Consequence Management Framework (CMF) in relation to R&Q matters applies consistently across all LoS. There is no separate or additional Accountability Framework for the TLS LoS. This is considered appropriate.

In relation to R&Q the CMF is accompanied by an *Australian Firm Risk & Quality Accountability Framework*. The R&Q metrics process contained in the R&Q Accountability Framework identifies those partners who have exhibited significant positive or negative risk and quality behaviours based on input from R&Q, Independence and Compliance, Learning & Development and Office of General Counsel (OGC). These inputs are then moderated by the FA R&Q Team to ensure consistency for similar behaviours across all businesses. All data supporting ratings are shared and discussed between partners and FA R&Q Team members who have the support and authority of FA Leadership. The objective of the R&Q metrics process is to positively recognise Leadership in Quality or accountability when quality expectations have not been met.

A People & Ethical Conduct Panel (P&EC Panel) was established in FY22 to provide oversight and management of serious conduct matters (Category 1 matters under the CMF and all Partner matters from FY24). The establishment of the P&EC Panel is a good initiative that reinforces at a firmwide level the importance placed on matters pertaining to the conduct of partners and staff and behaviours in accordance with the PwC Values and PwC Code of Conduct.

The Switkowski Review recommended (recommendation 15) that PwCA redefine and clarify accountabilities for conduct risk. In response, PwCA committed to review the consequence management framework and make available and keep up to date on an accessible framework, tools and materials to support good decision making founded on the PwC Code of Conduct and the profession's Code of Ethics as well as conducting regular training on ethics for all staff and partners.

A new FY24 Balanced Scorecard was launched to partners in September 2023 to address recommendation 21 in the Switkowski Review to 'review the partner performance management framework'. It includes a significant emphasis on non-financial measures in areas such as ethics and integrity, culture and experiences, client centricity and collaboration. The CMF was also reviewed to include clearer firm-wide minimum standards with a focus on leadership, integrity and other key values.

Requirement 4 was rated ***Requirement Met*** by the SME reviewer for FY22.

Requirement 5: Purpose, Values, Tax Policy Panel & Global Tax Code of Conduct

The TLS LoS promotes a PwC Purpose-driven and values-led culture, including adherence to the GTCoc.

The training deck "How we provide complex tax advice" is fundamental in promoting the PwCA Purpose, Values and Global Tax Code of Conduct.⁹

⁹ There is a separate deck for Tax and Private covering the same subject material.

Purpose and Values

Much of the firm's concept of purpose and values is embodied in the training deck "How we provide complex tax advice" (Complex Tax Advice training deck) where it is stated (at p.5) that:

*'How we advise our clients on the complex tax implications of positions, transactions, structures and financial arrangements should be aligned to our global **purpose**, guided by our **values**, within the parameters set by our **global tax code of conduct**, and supported by our local **R&Q policies**.'*

The highlighted concepts are then explained in some detail later in the deck. It includes commentary on the Principles, the '10 requirements' when providing complex tax advice, the '8 Risk fundamentals' for all advice and Legal services in relation to tax advice.

The Switkowski Review (at p. 46) was critical of PwCA's strategic focus of prioritising 'above system growth' over purpose and values. Overall, interviewees and focus groups reported that conversations about purpose and values had declined and received 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, the first of five Commitments to Change in PwCA's Action Plan is to 'put purpose and values at the core of everything we do'. Key initial actions are to:

- Conduct a gap analysis to identify a firm-wide target culture focused on restoring trust; and
- Undertake a program of work to embed desired behaviours to bring purpose and values each day.

These actions will build on the work already done by the Tax and Private businesses toward the end of the 2022 calendar year with respect to culture.¹⁰

Tax Policy Panel (TPP)

PwCA's TPP was introduced in April 2016. Its role is to review high risk advice (per defined triggers) in the Higher Risk Engagement Policy (HRE) for both the Tax and Private businesses to ensure appropriate specialist involvement, consistency of technical positions and the provision of holistic tax advice.

The triggers are not static. For example, the new HRE policy revised the high risk tax triggers and a new example was added in June 2023 in relation to new measures (the application of Intangible Rules). The FA R&Q Team in conjunction with the TPP Chair undertakes an annual review of the adequacy of TPP triggers contained in the HRE policy having regard to feedback from the ATO and emerging trends/issues.

¹⁰ See Requirement 8: Human Capital for further discussion.

The TPP forms part of and assists in the execution of the firm's Complex Tax Advice Protocols (the Protocols). The Protocols consist of a set of 10 requirements that facilitate the delivery of high-quality services when advising on complex tax matters. There was universal positive feedback from all interviewees on the quality of advice provided by the TPP and the support provided to engagement leaders. The ATO is also very supportive of the TPP.

Engagement teams must implement the recommendations/instructions from any TPP review and document the outcomes and actions in the engagement file. The TPP Secretariat follows up to ensure this is done.

The firm conducted a review of the effectiveness of the TPP in FY23. This process was based on a framework which was intended to assess the following areas of the firm's TPP policy: Existence, Communications, Understanding, Sponsorship, and Monitoring and Enforcement (referred to as the "EXCUSME framework"). The results were positive with all elements of the EXCUSME framework being satisfied. In particular, 'spot checks' on 18 engagements which, prima facie, had high risk categories were undertaken to determine whether the Tax business understood when to, and actively did, engage the TPP. The checks found that all selected engagements were compliant and had appropriate TPP involvement. In addition, as part of the annual Engagement Compliance Reviews (ECRs), the R&Q Team tested engagements with high risk characteristics to determine whether TPP involvement was required. The results of these reviews did not identify any issues. All partners understood the triggers for obtaining TPP involvement.

Following the 2021 Review, it was envisaged that to enhance TPP effectiveness and provide a further degree of independence that an external consultant would:

- Review materials provided by the TPP Chair each quarter in relation to key TPP matters of the prior quarter;
- Meet with the TPP Chair, TPP Secretariat, and member of the PwCA Tax Policy Panel team on a quarterly basis to run through key TPP matters; and
- Be an observer at a number of TPP calls/meetings (target 10% of formal panels) during the year.

This did not occur regularly in the three years since the 2021 Report. For example, the independent consultant participated in two Panel meetings in the 2023 calendar year but no quarterly reviews were conducted. The reason for not meeting these requirements provided by PwCA was a lack of matters requiring formal TPP panels. It is considered that a more achievable engagement with an external consultant be developed which still retains the original intent of providing a level of independent review. For example, this may be having catch up meetings only twice per year, attending a small number of full Panel meetings and perhaps a couple of triage meetings that aren't time sensitive.

Based on this limited interaction, examination of relevant documentation (e.g., TPP Overview, Tax Policy Panels PwC Australia Compliance, TPP Effectiveness Report etc) and interview responses, it is considered that the TPP has a robust process in place that supports the PwCA Tax and Private businesses in achieving their stated objectives. The SME reviewer of PwCA's FY22 TLS QMS commented that 'PwC Australia is one of the network leaders in having an effective TPP'.

Nevertheless, there are some improvements that should be made. Only a small number of referrals (18.3% FY22 and 14.3% FY23) are considered at a full panel meeting, the balance are triaged out by the TPP Chair. Limited records are kept by the TPP Secretariat of the reason why the matter didn't go to a full panel. To demonstrate a greater level of independence, it is considered that another senior partner should be engaged in the triage process. That could be a Subject Matter Expert (SME) for the issue under consideration. In addition, going forward, another column should be included in the TPP documentation records stating the reason why a matter didn't go to a full panel.

It is recommended that:

- **A more achievable engagement with an external consultant be developed for the TPP which still retains the original intent of providing a level of independent review.**
- **Another senior partner is engaged with the TPP Chair in the triage process.**
- **Another column is included in the TPP documentation records stating the reason why a matter didn't go to a full panel.**

Global Tax Code of Conduct

To a large extent the standards and principles set out in the GTCoC parallel those in the Principles and embodied in the '10 requirements' for the provision of Complex Tax Advice by PwCA. In particular:

- Tax advice must be based on a 'credible basis in law' ('Reasonable Arguable Position' in the Australian context);
- No tax advice relies for its effectiveness on any tax authority having less than the relevant facts;
- Tax advice is given in the context of the specific facts and circumstances as provided by the client concerned and is appropriate to those facts and circumstances;
- Tax advice involves discussion of the wider considerations involved, as appropriate in the circumstances; and
- PwC firms advise clients of appropriate options available to them under the law having regard to all of the principles contained in the applicable tax codes.

The importance of adhering to these standards and principles is communicated and reinforced in a number of ways including:

- Training, including 'How we provide complex tax advice' and 'Risk & Quality' training;
- HRE policyf;
- Monitoring of the Annual Compliance Confirmation (ACC) process requiring all partners to confirm that they understand they have a personal responsibility to comply with the GTCoC and that they believe that their conduct has been consistent with the principles;
- Engagement Completion Reviews (ECRs);
- Quality Assurance Reviews (QARs); and
- It is emphasised by the TPP.

In addition to structural changes mentioned above, there have been key changes to the QMS as they relate to the overall tax governance framework and provision of tax and legal services across Tax and Private businesses. Some of the more significant include:

- The implementation of a quarterly FA Quality Dashboard to provide an additional leadership reporting mechanism, with a focus on quality metrics and KPIs in relation to key strategic priorities and risk areas;
- Better R&Q communication with a monthly update (*R&Q Corner*) of R&Q matters sent to all staff; and
- Regular review (and reporting to Global) of the TLS practice to confirm leadership's review of the practice's risk assessment, client base, service offerings, large and HREs, technology, recruitment and succession planning, learning and development programs, and R&Q role/impact and effectiveness.

Requirement 5 was rated **Requirement Exceeded** by the SME reviewer for FY22.

Requirement 7: Client & engagement acceptance

The TLS LoS has operational risk management processes in place for both the acceptance and continuance of clients and engagements and the identification of higher risk engagements, in accordance with network and territory risk management policies and guidance.

The TLS LoS has numerous policy documents covering client acceptance and engagement acceptance including the criteria for identifying HREs. Recent enhancements have also strengthened the processes.

Key internal controls in relation to client acceptance, engagement acceptance and higher risk engagements have been updated since the 2021 Review. Since August 2021, the new Acceptance+ system in Salesforce has been the system used by the FA business to complete Client and Engagement Acceptances. The general risk factors and service-specific risk factors in the HRE policy are operationalised through the Salesforce Engagement Acceptance Questionnaire. Consultation with the Engagement Acceptance Panel (EAP) is required as part of the acceptance process for all higher risk engagements where one or more of the general risk factors are present. The EAP is chaired by the BRP and is responsible for considering whether the engagement should be accepted in light of the identified risks.

A comprehensive suite of training (including mandatory training) and resources is on the Salesforce Hub. At a firm level, a detailed client screening and sanctions checking process overseen by the Know Your Client (KYC) Screening Team was introduced in FY22.

The HRE Policy for FA was refreshed in FY23 (October 2022). The Policy brings together the existing higher risk frameworks operating across the FA businesses; expands the general risk factors to identify FA's larger, more complex, more sensitive and strategically important engagements; and streamlines and supplements the service-specific high risk engagement factors addressing both technical and reputational risks (see requirement 10 for further detail).

It is considered that TLS LoS has sufficient operational risk management processes in place for both the acceptance and continuance of clients and engagements and the identification of higher risk engagements.

Requirement 7 was rated **Requirement Met** by the SME reviewer for FY22.

Requirement 8: Human Capital

The firm's HC activities meet the needs of the TLS LoS (for example all TLS professionals receive training, coaching and support to enable them to comply with relevant external requirements and deliver quality services).

As noted in the 2021 Review, an assessment of the quality of the firm's training is beyond the scope of this review. However, it is necessary to understand the scope, relevance and comprehensiveness of available training, coaching and support programs to be able to form an opinion on whether they support the Control Framework, enable professionals to comply with relevant external regulatory requirements and ensure that Engagement Teams are able to deliver quality services.

It is considered that the suite of training, coaching and support activities available to partners and staff at all levels satisfies this requirement as discussed below.

Technical training

Technical quality requires tax technical training to be a specific priority. There is a national learning development curriculum focussed on the delivery of tax technical training by Subject Matter Experts (SME) on core concepts and new developments at all levels. The TLS business is supported by the Tax Markets & Knowledge Team through training, communications, and technical support directly to engagement teams.

There is a strong focus on formal and informal coaching and mentoring at all levels of the firm. Technical quality of deliverables is managed 'on the ground' through the '4 eye review' concept and support of specialists in Tax Markets & Knowledge.

Training on 'How we provide complex advice' has been presented to all Tax and Private staff, and is also presented to all graduate recruits. This training is critical in reinforcing PwC's Purpose, Values and Global Tax Code of Conduct and received positive feedback during many of the interviews conducted during this review. Items that have been identified by FA R&Q Leadership as higher risk are presented to Partners and Directors in sessions to increase awareness of these risks and discuss mitigation strategies.

The FA R&Q Team provides support to ensure that engagement leaders providing Tax Agent Services are appropriately registered with the TPB. A Tax Agent Registration toolkit is available providing engagement leaders with the key information and supporting documents regarding Tax Agent registration. In FY23 a specific confirmation was included as part of the Annual Compliance Confirmation (ACC) process where engagement leaders were required to confirm that they were individually registered as a Tax Agent with the TPB, had complied with

the TASA and complied with the TPB's Code of Professional Conduct during the confirmation period. Also, all engagement leaders involved in the provision of Tax Agent services are required to state that they are 'Fit and Proper' persons in accordance with TASA.

Support is provided to legal partners in respect of Law Society requirements to ensure that legal practitioner partners maintain relevant registrations/practicing certificates, and the FA R&Q Team facilitates specific training for the Core legal team on a quarterly basis. There is a Legal Services toolkit on the FA R&Q Hub which includes information pertaining to the requirements for Authorised Legal Practitioners.

One outcome of the investigation of PwCA in relation to the TPB matter was for PwCA to conduct Tax Agent Code of Conduct training throughout the firm. When interviewed as part of this review, the TPB CEO/Secretary was critical of that training – referring to it as 'light-on'. This training has been enhanced (and continues to be enhanced) since the initial program.

Tax & Private Culture Reviews

How the firm advises clients on the complex tax implications of positions, transactions, structures, and financial arrangements is influenced by the firm's culture.

A 'culture review' was initiated for the Tax and Private businesses toward the end of the 2022 calendar year. The Private business review was well advanced and identified expected behaviours, aspirations and how the business connects, and the then Private business Leader led a roadshow to the business communicating the results.

Action to progress the Tax Culture Review was placed on hold as a result of the TPB matter and the external reviews that were being conducted, in particular the Switkowski Review which was specifically focussing on culture. It was proposed that the Tax Culture review be continued after the findings of that review. One of the recommendations (recommendation 18) in the Switkowski Review was to 'Conduct gap-analysis to a firm-wide target culture focused on restoring trust'. In response the PwCA Action Plan committed to an initial culture gap analysis using existing material including engagement surveys and cultural work that has been done in the separate businesses. This initial culture gap analysis assessment is to inform the design of an extensive culture program which is expected to run until December 2025. No doubt the work done in the Private business review will be useful input to that assessment.

In the absence of any work at the enterprise level, a recommendation would have been made for the Tax Culture Review to be recommenced consistent with the work done in the Private business review. However, given the Switkowski recommendation and the response in the Action Plan, it is not proposed to make any recommendation about continuing the Tax Culture Review. It is assumed that any work required will be included in the enterprise response.

Human Capital activities were rated **Requirement Met** by the SME reviewer for FY22.

Requirement 10: Higher Risk Engagements

The TLS LoS has implemented a policy for higher risk engagements setting criteria for the involvement of appropriately qualified and experienced concurring partners, technical experts or committees as appropriate.

A fundamental aspect of the FA QMS is the HRE policies which require the identification and escalation of higher risk engagements and the application of enhanced risk procedures. There are HRE policies in place for both the Tax Business and Private Business. They complement the GTCoC and the Complex Tax Advice Protocols which are focussed on ensuring the quality of high risk advice, apply to all engagements assessed as higher risk and require consultation with the TPP.

The FA Higher Risk Engagement Escalation Framework is a key control for the monitoring of HRE's in conjunction with the Risk Assessment process. HRE factors selected by an engagement team in their Engagement Acceptance questionnaire in Salesforce remind the Engagement Team of the application of the HRE policy and trigger a system generated escalation notification to the nominated approver (e.g., the FA R&Q Team or TPP Secretariat). The notifications and escalations built into the Engagement Acceptance Process enable potential and actual HRE's to be monitored and appropriately mitigated at the outset through appropriate and tailored R&Q Team intervention or EAP or TPP panel consultations.

The HRE Policy for FA was refreshed in FY23. The new HRE Policy streamlines and improves consistencies in the approaches to quality support and risk management mechanisms for higher risk engagements across FA. The key changes are summarised below:

- The introduction of 'general risk factors' which apply across all FA engagements. Where one or more of the factors is relevant to an engagement, it will require the up-front approval by an EAP which will determine the most appropriate support/review mechanism to best manage particular engagement risks;
- The identification of FA's largest, most complex and most strategically important engagements (Tier 1 engagements) – for which focussed risk and quality support will be provided, including a Quality Review Partner, in-flight reviews and periodic reporting to Business and Business Risk Leadership;
- Higher risk engagements which involve advice on designated technical areas require the involvement of a second partner who is a listed SME for that technical area; and
- For Private, a trigger requiring referral to the TPP for **Family Group** restructures (involving fees > \$100k or assets > \$150m). It was mentioned during the interviews that there is some ambiguity as to what constitutes a 'family group restructure'. This was acknowledged by the Managing Director who chairs the TPP for the Private business.

A comprehensive communications program to increase awareness and understanding of the new HRE Policy was executed by the FA R&Q Team in FY23. In addition to formal training,

consultations with the FA R&Q Team by engagement teams have facilitated the reinforcement of the HRE policies. No engagement leaders were rated *Non-compliant* with the HRE policies in the ECR program undertaken in FY23.

Requirement 10 was rated **Requirement Met** by the SME reviewer for FY22.

It is recommended that the Managing Director who chairs the TPP for the Private business clarify the term ‘family group restructures’ in the Private business HRE triggers and communicate the outcome throughout the Private business.

Requirement 11: Engagement compliance reviews

The TLS LoS runs a robust annual program of engagement compliance reviews (ECRs).

ECRs (and Engagement Quality Reviews (EQRs)) are important elements in ensuring compliance with the firm’s engagement protocols, regulatory regimes and legal requirements. They are an integral part of the partner metrics process in determining an Engagement Partner’s Overall R&Q Rating. It is a robust program with an engagement leader being subject to one ECR annually.¹¹

The 2021 Review outlined a number of strong features of the ECR program:

- Engagements to be reviewed are selected following a risk-based process, considering various risk parameters, as applicable for each engagement leader;
- All reviews are conducted by Reviewers trained in conducting R&Q Reviews, with a senior R&Q Team member (Validator) experienced in performing R&Q Reviews conducting a ‘4 eye’ review;
- Reviewers are provided with Annual R&Q Reviewers training;
- There is a detailed (138 page) procedural manual for Reviewers;
- The automation of ‘ECR Demerit Points’ based on factual criteria enhances objectivity and consistency of judgments by Reviewers and Validators;
- A multi-stage moderation process ensures that assessments are valid and fair;
- There is an open communication and feedback process¹²;
- Results are reported to FA Leadership, and ultimately the Executive Board (EB); and
- A Continuous Improvement Strategy (that is reviewed regularly throughout the year) is also presented to the FALT.

Since the 2021 Review, the FA R&Q Team has focussed on ways to streamline and improve the ECR process, mainly through automation with the auto generation of review records, folders, emails and pre-population of review records using engagement data from iPower and Salesforce. Additional efficiencies were achieved with a more streamlined engagement selection process using dashboards and improved systems access for the Alternative Delivery Model (ADM) offshore team.

¹¹ Engagement leaders that received a *Non-compliant* rating in the previous year are subject to two reviews in the current year.

¹² This includes the R&Q Leader communicating with R&Q Global with respect to ECR results and outlier situations to seek feedback on appropriateness of ratings applied in the ECR process.

The FY22 Continuous Improvement Strategy identified that improvement was required in relation to compliance with documentation requirements and timely filing of engagement documentation. As a result, the FA R&Q team introduced a documentation strategy which achieved some improvement in the timeliness of filing and overall awareness of the documentation policy and systems. However, the team considers that more improvement is required from the business and further work will continue in FY24 to fully embed the documentation policy and desired behaviours.

Requirement 11 was rated **Requirement Met** by the SME reviewer for FY22.

Requirement 12: Quality Assurance Reviews

The TLS LoS runs a robust annual quality assurance review (QAR) program.

The FA R&Q Team run a robust annual QAR program. It is noted the QAR Program consists of Business Unit Reviews as well as Engagement Quality Reviews (EQRs) for every engagement leader in the practice..The QAR program is important in supporting the upfront risk systems in ensuring compliance with the firm's engagement protocols, regulatory regimes and legal requirements.

The overall goal of the QAR program is to:

- Assess the appropriateness of a business unit's controls, systems and environment for driving quality services;
- Monitor, benchmark and where appropriate, improve the quality of the services offered by the business unit; and
- Assess whether the business unit is appropriately managing risk.

The 2021 Review recommended that the R&Q Team ensure that every partner and business unit is subject to a review under the QAR program each year. That recommendation has been implemented. At the time of the 2021 Review, one-third of partners and business units were subject to reviews under the QAR program each year. A redesigned FA QAR Program was designed with around two-thirds of all Engagement Leaders being subject to a review in FY21 with the program being fully implemented by FY22 with every Engagement Leader being subject to a review in both FY22 and FY23.

Approximately one-third of the EQRs are done by the FA R&Q Team with the remainder by partner review. The FA R&Q Team reviewers are senior members who do not perform any client-facing work with members of the FA Business, and report directly to the FA R&Q Leader. Partner Peer Reviewers receive a Quality Review Briefing outlining the process to be followed. The independence of the Partner Peer Reviewers is achieved by the FA R&Q Team selecting Partner Peer Reviewers based on the following criteria:

- Appropriate technical knowledge of the engagement being reviewed;
- Partner Peer Reviewer did not perform services on the engagement;
- Peer Reviewer is independent of the Engagement Leader (e.g., from a different office/state or team); and

- Partner Peer Reviewer does not have a direct reporting line into the Engagement Leader.

Interviewees were strongly supportive of the EQR process with acknowledgment that there is always room for improvement. The following suggestions were made:

- That there be debriefs with other peer review partners to ensure consistency in approach to reviewing and rating files prior to the formal moderation process; and
- A program of forced rotation of partners involved in EQR peer reviews should be introduced as this can improve understanding of quality across the partner group and share experiences.

A comprehensive moderation process is conducted¹³, results are communicated to Engagement Leaders and there is a direct link to Engagement Partners' overall R&Q Rating. The R&Q Metrics Dashboard developed by the R&Q Team uses data analytics tools to enable visualisation of all the underlying data collected through the ECR/EQR process. This allows the R&Q Team to better identify and understand trends, outliers, and patterns in R&Q results.

Historically, the FA R&Q Team used overseas reviewers to assist in the Australian review process on an annual basis.¹⁴ This has not occurred since the Covid-19 pandemic. The engagement of outside involvement in reviews enhances the independence of the reviews and provides valuable insight in benchmarking the Australian approach.

Requirement 12 was rated ***Requirement Exceeded*** by the SME reviewer for FY22 with a comment that 'PwC Australia performs QAR on all business units (including Engagement Quality Reviews on all partners) which (is) beyond the every three years requirement'.

It is recommended that:

- **There be debriefs with other EQR peer review partners to ensure consistency in approach to reviewing and rating files prior to the formal moderation process.**
- **A program of forced rotation of partners involved in EQR peer reviews be introduced.**
- **The R&Q Team invite overseas reviewers to participate in ECR and QAR program for the next round of reviews.**

¹³ There is a similar process for ECRs.

¹⁴ This was also the case for ECRs.

Engagement with the ATO and TPB

At the TLS level, the TPP Chair and other members of the FALT regularly met with the ATO to continue to build relationships, to raise awareness of PwCA's latest TPP and HRE protocols and their role in providing high quality and holistic tax advice, and to discuss emerging or contentious tax issues. The TLS Leader continues to have regular catch ups with the Deputy Commissioner Public Groups and Private Tax Leadership continues to meet regularly with the Deputy Commissioner Private Wealth. The TLS Leader also facilitated a monthly meeting between the Deputy Commissioner Public Groups and the Big 4 Advisory Firms. These meetings lapsed following the TPB matter and the Deputy Commissioner Public Groups indicated her willingness to re-engage with these meetings. Both Deputy Commissioners reported that they consider the relationship between PwCA and the ATO as being much more open and transparent in recent times.

Following the TPB investigation of the TPB matter, the ATO and TPB relationship risks in an ERM context were elevated to 'Extreme' due to the reputational damage it caused. The firm's policy in respect of managing conflicts of interest, handling confidential information and obligations in relation to tax confidential consultations was tightened and updated. Client facing partners were removed from confidential Government consultation processes to mitigate the inherent conflict of interest and mandatory training was introduced on Tax Agent Code of Conduct and the regulatory consultation process. There was recognition that new relationships needed to be built with senior ATO officers, including at the Commissioner/2nd Commissioner level.

Recommendation 16 of the Switkowski Review recommended that PwCA 'review (its) 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.' PwCA committed to strengthening regulatory engagement by establishing central leadership and oversight to support business led engagement. The CR&E Leader has overall ownership for regulatory engagement. The CEO, CR&E Leader and General Counsel are now each involved in regulatory dialogues alongside Business leaders and there is regular reporting to and discussion with the MLT on these matters. It will be particularly important for senior PwCA Leadership to engage with the new Commissioner when he takes up office to brief him on the TPB matter, the Switkowski Review findings and recommendations and the commitments to change that PwCA has made in the Action Plan.

Having good relationships with the ATO and TPB will be even more important going forward with the significant changes to the governance framework impacting tax practitioners in recently enacted legislation¹⁵, legislation currently before the Senate¹⁶ and proposals contained in a Treasury consultation paper to broaden the TPB's sanction powers¹⁷.

¹⁵ *Treasury Laws Amendment (2023 Measures No.1) Act 2023 (CTH)*.

¹⁶ *Treasury Laws Amendment (Tax Accountability Fairness) Bill 2023 (CTH)* was referred to the Senate Standing Committee on Economics on 30 November 2023 for inquiry and is due to report by 18 April 2024.

¹⁷ *Treasury: Enhancing the Tax Practitioner's Board's sanction regime*, December 2023. Note that Treasury has indicated that there will be further consultation papers on associated topics.

Interviews

A number of interviews were conducted with a sample of FA partners and staff, as well as senior officers from the ATO and TPB, to get the ATO and TPBs perspectives.

PwCA interviews

Interviews were conducted with the FA leader, TLS Leader, Chief Risk & Ethics Leader, Head of Compliance, FA People & Quality Leader, Tax Business Risk Partner, Legal R&Q Director, Managing Director Private and TPP Co-Chair, TPP Chair, the TPP Secretariat, Private Business Leader, TLS Brand & Markets Leader, Global Tax Leader, a sample of Private and Tax partners and staff, FA R&Q Leader and members of the FA R&Q Team.¹⁸ The interviewees' experience within PwCA ranged from around 1.5 years to in excess of 20 years. The purpose of the interviews was to:

- Gain an understanding of the various R&Q policies, protocols and procedures;
- Understand how those policies, protocols and procedures are implemented on the ground;
- What changes that have occurred since the 2021 Review; and
- Gain insights from the interviewees' experiences.

The interviews were conducted in a free-flowing manner adapted to the particular role that the interviewee(s) had within the firm, rather than adhering to a strict, formal set of questions. A number of common themes emerged from the interviews.

The TPB matter has had a profound impact on all FA partners and staff, particularly the Tax team, with acknowledgment that many feel hurt and stressed. The blow of the 8 or 9 partners departing was heavy and to lose a lot of talent and experience in a short space of time had been demoralising but not fatal. There have been a few voluntary departures at the partner level but not to an extent that there are concerns. There was universal acknowledgment that the TPB matter has had an extremely negative impact on the PwC Brand making it difficult to attract new clients. A lot of work has been going on to build confidence with existing clients. Whilst there was confidence that most existing clients will stay with the firm, some have been lost and there were some reports of other clients questioning their ongoing relationship and being more selective in the work that they will engage PwC on in future. Nevertheless, there was a degree of optimism going forward. Many interviewees indicated that the TPB matter gave them the opportunity to learn from the mistakes of the past with all fully embracing the recommendations of the Switkowski Review and committed to implementing the firm's Action Plan to address the findings and recommendations as they relate to the FA business.

There was a sense that the FA business has grown in R&Q maturity in recent times (but see the Switkowski finding with respect to this at the enterprise level) with strong support for the Principles and PwCA's approach to the provision of Complex Tax Advice generally and for HRE's particularly via the '10 Requirements'. Many spoke positively about the quality of the

¹⁸ The schedule of interviews is included at Appendix IV.

Complex Tax training that was conducted in 2023 and the reinforcing of the important role that R&Q plays in the business with acknowledgment of some of the changes that have been introduced over the last three years, e.g., the new FA HRE policy, the establishment of the Client Committee, new Client and Engagement Acceptance processes, etc.

Many interviewees reaffirmed comments made during the 2021 Review that the firm has been undergoing a cultural shift since at least 2016 and the emphasis that the current FA Leadership has on the importance of behaviours, messages, actions and initiatives reflecting the firm's values and the focus on quality, accountability, risk management and the drive to manage stakeholder expectations. That said, the response to the Switkowski recommendations 17 and 18 in PwCA's Action Plan to undertake a program of work to embed a focus on purpose and values and undertake a gap-analysis to develop a firm-wide target culture on restoring trust was welcomed. There was general agreement that restoring trust will be a long-term and difficult process.

The strengthening of R&Q activities through the ECRs and QAR program has also led to behavioural change. Commitment to providing quality service and staff training to facilitate this came through strongly in many of the interviews. Again, there was strong support for the TPP (and '4 eyes' concept).

Legal engagements have been a particular area of focus in recent times. The FA Legal R&Q Director explained the steps that have been taken to ensure that there is discipline around legal engagements starting with the opening of an Opportunity in Salesforce through to specific questions in ECRs relating to legal advice. LPP continues to be problematic. A working group was formed following the JBS decision to look at the findings as to what type of communications would satisfy the dominant purpose test. This led to PwCA moving to a model where only certain risk parameters trigger an approval process.

Some interviewees also expressed concern about the impact of the amendments to the Promoter Penalty laws on individual partners in a partnership of around 1,000 partners (as of August 2023 at the commencement of the schedule of interviews). It would be advisable for the profession to engage with the ATO and TPB early to clarify the approaches that they will be taking to these and other regulatory changes.

ATO Interviews

Interviews were conducted with the Deputy Commissioner Public Groups and the Deputy Commissioner Private Wealth to get an ATO perspective.

The Deputy Commissioner Public Groups was generally positive and supportive of the Principles emphasising the need for practitioners to continue to focus on them. She was a little critical about the launch of the Principles, referring to it as a 'soft launch'. She was very positive in giving credit for the leadership role that PwCA played in getting them agreed and published - not all the firms were as enthusiastic. She suggested an improvement might be to include something in the Principles around conflicts of interest. However, the independent consultant considers that the enterprise approach being put in place following the recommendation in the Switkowski Review is more appropriate. Some of the previous

concerns that the ATO had with PwCA identified in the 2021 Review by the Second Commissioner were discussed and she agreed with him that PwCA's appetite for risk was probably reduced now but that not all the LPP issues have been resolved. She considered that the relationship between PwCA and the ATO was much more open and transparent now compared to how it had been in the past. An example of this is the regular meetings that she has with the TLS Leader and the monthly meetings organised by PwCA that had been happening until recently to meet with her with the other Big 4 Advisory Firms. She was open to participating in those meetings in the future. That said, she said it was too early to conclude that there has been the cultural shift needed to have more balance between profit and the firm's values.¹⁹ She agreed that the framework is there but it's another thing to see the actions through. At the time of the interview, she said that she wasn't sure who had overall responsibility for risk (now the Chief Risk & Ethics Leader) and she would be interested in particular in what work was proposed in relation to culture and ethics.

The Deputy Commissioner Private Wealth was also supportive of the Principles although she had not been as involved as her Deputy Commissioner colleague and Second Commissioner in their development. She considers that PwCA is possibly more conservative than some other firms in relation to Private Tax matters and has sophisticated arguments supporting their position, particularly in relation to international issues. She said she had a very good relationship with the Private Leadership Team however her experience with other partners on Private Tax matters varies. She gave a couple of anonymous examples of behaviours not considered totally consistent with the Principles or PwC's values. Whilst very much in the minority, this led to some scepticism that there has been a positive change in the culture and attitude across the board. She also questioned whether governance in the Private Tax space is as strong as for Public tax. If it hasn't already been done, the Private Leadership Team should offer the Deputy Commissioner and some of her senior staff a presentation of the risk policies and framework that have been tailored for the Private market since the 2021 Review, including the specific triggers in the HRE policy.

TPB Interview

The TPB referred the Reviewer to publicly available information related to PwC, including related investigation outcomes noted on the TPB Public Register. Given ongoing investigations related to PwC and associated personnel, the TPB does not consider it appropriate to provide further commentary.

¹⁹ This was an interesting observation as the same issue was highlighted in the Switkowski Review which was not published until after this interview.

APPENDIX I: PwCA Action Plan to Implement Switkowski Recommendations

A copy of the Action Plan is included below but can also be accessed via

<https://www.pwc.com.au/about-us/commitments-to-change/pwc-australias-commitments-to-change.pdf>

September 2023



PwC Australia's Commitments to Change

Response to the findings of Dr Ziggy Switkowski AO
and recent events at PwC Australia



27 September 2023



Part 1: Overview of Our Response

A Foreword from Kevin Burrowes, PwC Australia's CEO and Justin Carroll, Governance Board Chair: PwC Australia's Commitments to Change

In May 2023, PwC Australia commissioned Dr Ziggy Switkowski AO to conduct an Independent Review ("the Review") that evaluates the strengths and shortcomings in PwC Australia's governance, culture and accountability frameworks and practices.

On behalf of our firm, we want to thank Dr Switkowski for conducting a thorough and rigorous review. We are also grateful to our people and other stakeholders who shared their knowledge and experience to inform Dr Switkowski's Review.

As we previously committed, today we published the Review in full.

PwC Australia accepts and will implement the Review's recommendations. We recognise this is a critical and significant step required to re-earn the trust of our people, clients and stakeholders.

Dr Switkowski's Review highlights a failure of leadership – both by individuals and as a firm. Over time, this failure of leadership contributed to an erosion of good governance and culture, weakening focus on our professional and ethical standards.

We deeply regret and apologise for our failures. While at times difficult and disappointing to read, Dr Switkowski's Review lays bare where shortcomings exist in our firm and a culture that allowed them to go unchecked over time.

It is incumbent on us to accept this, and for each and every one of our partners as well as staff to embrace the need for change, and work together to build a better PwC Australia.

The Review makes a clear distinction between the leadership failures that led to an erosion of good governance and culture and the high quality of work our people and the firm provide for our clients every day. In particular, Dr. Switkowski highlights our Assurance business, which he states appears to "substantially model best practice."

In fact, Dr Switkowski states that "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." We will follow Dr Switkowski's advice to leverage the strengths he identifies within our firm to reset for the future, restore trust, and rebuild.





To both our clients and our 10,000 dedicated people: we have fallen short of your expectations. While the past few months have been enormously challenging, we are proud of the resilience our people have shown and their commitment to continue delivering high quality work - day in, day out.

PwC Australia's Action Plan to deliver on our Commitments to Change

We have deeply considered all of Dr Switkowski's recommendations, and undertaken a period of introspection to consider the root causes that allowed this situation to occur. These reflections are described in detail in our Action Plan below.

The Action Plan will deliver on our Five Commitments to Change. These are:

- 1** Put our purpose and values at the core of everything we do
- 2** Increase the independence and effectiveness of our governance board
- 3** Improve discipline and rigour of decision making
- 4** Strengthen risk and conflict management and accountabilities
- 5** Embed a culture and practice of constructive challenge

One foundational area of change Dr Switkowski identified was our firm's governance. The Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations provide a strong corporate governance framework and to the extent feasible, we will apply them to PwC Australia. This will include the appointment of at least three independent non-executives to our Governance Board, including a non-executive Chair, and we will publish comprehensive, audited financial statements by September 2025.

We understand that urgent change is required, and as Dr Switkowski undertook the Review, there were actions we began to deliver. Our actions over the last several months reflect our commitment to right the wrongs of the past and set ourselves up for the standards and expectations we must meet.

These include, but are not limited to, putting a new CEO and management team in place, initiating a search for independent non-executives, changes to partner remuneration frameworks for all partners with a balanced scorecard emphasising non-financial measures, divesting our government business to Allegro Funds and beginning work to build a more mature Enterprise Risk Management approach.

The Review and our corresponding management response marks a moment in time from where we, and others, can measure and hold ourselves to account for progress on our commitments.





We will publish our progress in meeting these commitments until changes are fully embedded. Our Governance Board, to be led by an independent Chair, will oversee our progress and reporting and ensure there is independent verification of our progress.

Our vision for the future is to become the leading professional services firm, built on the highest ethical and professional standards with integrity at our core, a firm that delivers purposeful and sustained outcomes in everything we do.

We do not underestimate the scale of the task ahead to achieve our vision. While we are committed to moving as quickly as possible - we realise that meaningful change will take time and we are committed to getting this right.

As the CEO and Chair of the Governance Board we commit to leading these efforts and overseeing the implementation across the firm.

From the top down, we are committed to rebuilding and re-earning the trust of our stakeholders - our clients, people, regulators, the government and communities. We are committed to learning, changing, and leading. This is our promise.

Please see our full Action Plan in Part Two below.

Kevin Burrowes

Chief Executive Officer,
PwC Australia

Justin Carroll

Chair, PwC Australia
Governance Board





PwC Australia's reflections on Dr Switkowski's findings

In the open letter we published on 29 May 2023, we acknowledged that we failed in three ways. First, there was a lack of respect by certain partners for confidentiality. Second, PwC Australia did not have adequate processes and governance in place. Third, we had a culture at the time in our Tax business that allowed inappropriate behaviour and, until now, we have not always properly held our leaders and those involved to account.

Having now considered Dr Switkowski's findings and our own reflections, we have a more mature understanding of the factors that enabled the confidentiality breaches and other failures to occur. Key amongst these are:

- **Our Executive Board did not have the clarity of role, formality, or working practices to operate as an effective oversight and decision-making forum for firm-wide matters.** The previous model of often devolving decisions about strategy and operations to our three lines of service resulted in an over-reliance on informal channels to elevate risks, issues and decisions to be debated, challenged and resolved at the Executive Board level.
- **There was a hesitance in our culture to challenge decisions and actions of leaders, hold people to account and reflect on what was not working well.** We have a highly collegial culture but a "shadow side" of this cultural trait is that, within our firm, there can be overconfidence in decision-making, a reluctance to share bad news and a preference for harmony over having uncomfortable conversations. These ways of interacting with each other hampered our ability to challenge leaders, escalate issues and incidents and manage enterprise risk effectively.
- **Our Governance Board did not have sufficient independence, the appropriate structure or mandate to provide the level of oversight and challenge to leadership that was required.** This allowed too much power to rest in the hands of the CEO, a failure to hold leadership to account and a lack of transparency (to the Board and wider partnership) on some issues when they arose. The absence of independent voices around our boardroom table reduced the effectiveness of the Board's oversight of the CEO and senior leadership.
- **Our risk practices and systems focused on quality and client-delivery at the line of service level, but at the enterprise level our controls were immature – lacking the stature, capability and rigour required.** This created inconsistency in how risks were managed, reported and escalated in different businesses. These 'silos' limited the opportunity for additional objective challenge of risks and issues at a firm level, including at senior executive and board.





- **Our response to enterprise level issues was too narrowly focused and did not encourage enough analysis of root causes such as leadership and team culture.** This has made our historical response to some issues slow and initially incomplete. Issues were not investigated deeply enough with an overemphasis on the legal risks and the actions of only those directly involved. Our processes did not ensure enough objective oversight and challenge was applied to how issues were investigated, managed and communicated to stakeholders.
- **Our approach to holding partners to account has historically been opaque, particularly for matters of personal conduct and behaviour.** This has allowed for too much individual discretion in how consequences are applied and a lack of clarity for our people and stakeholders about what is not tolerated at PwC Australia.
- **We failed to reinforce a clear or consistent enough expectation that financial performance does not take precedence over non-financial priorities.** At its most extreme, this allowed practices to go unchecked in our Tax business in the past that were unethical and lacked integrity, placing profit over purpose. More broadly, our performance management system in some businesses has promoted a short-term, growth focus and with too much discretion in the assessment of non-financial performance, particularly values and behaviours.

In his Review, Dr Switkowski observes that our three lines of service (Consulting, Financial Advisory and Assurance) have different levels of maturity. Our Assurance business, which includes our Audit practice, is the most mature, having well-developed and embedded policies, systems and controls for audit quality management and independence that are subject to external inspection. As part of our response to the Review we will look to extend what works well in our Assurance business to the other parts of our firm.



PwC Australia's Commitments to Change

We have developed a detailed Action Plan to serve as our roadmap to enable us to realise our vision for the future. Our Action Plan forms Part Two of this document.

The Action Plan is built around five Commitments to Change.

Our Updated Vision: To become the leading professional services firm, built on the highest ethical and professional standards with integrity at our core, a firm that delivers purposeful and sustained outcomes in everything we do.

Our Commitments to Change

	1. Put our purpose and values at the core of everything we do	2. Increase the independence and effectiveness of our Governance Board	3. Improve the discipline and rigour of decision making	4. Strengthen risk and conflict management and accountabilities	5. Embed a culture and practice of constructive challenge
Key Initial Actions	<ul style="list-style-type: none"> Conduct a gap-analysis to identify a firm-wide target culture focused on restoring trust Undertake a program of work to embed desired behaviours to bring out our purpose and values each day 	<ul style="list-style-type: none"> Adopt the ASX Corporate Governance Principles where feasible Appoint at least three independent non-executives, including a non-executive Chair Revise the CEO election process Publish comprehensive, audited financial statements 	<ul style="list-style-type: none"> Formalise the Management Leadership Team (formerly known as the Executive Board) as the enterprise-level decision making and risk management forum Enhance operating and decision-making disciplines of the Management Leadership Team 	<ul style="list-style-type: none"> Strengthen the voice and mandate of the central risk function Appoint an external CRO Uplift the rigour and transparency of our incident handling and conflict management 	<ul style="list-style-type: none"> Further empower our people and partners to ask questions and challenge the decisions and behaviours of others within the firm

Each of our Commitments to Change involves a series of actions we have committed to taking. Those actions are a combination of the recommendations made by Dr Switkowski and other initiatives that we have separately resolved to implement. The key initial actions are set out in the diagram above and the detailed list of actions under each Commitment to Change is contained in the Action Plan at Part Two of this document.

A number of the changes proposed in the Action Plan require changes to our partnership agreement. As a partnership we will work together to agree the detail of how these changes will be made.





PwC's global values, outlined below, will guide the implementation of our Action Plan.



Act with integrity



Make a difference



Care



Work together



Reimagine the possible

Actions taken to date

The Action Plan builds on steps we took while Dr Switkowski was conducting the Review to address shortcomings and set ourselves up for the standards and expectations we must meet. These include, but are not limited to,

- putting a new CEO and management team in place;
- making our General Counsel and Chief Risk and Ethics Leader members of the Management Leadership Team;
- initiating a search for independent non-executive Governance Board members;
- changing partner remuneration frameworks with a balanced scorecard emphasising non-financial measures;
- divesting our government business to Allegro Funds; and
- beginning work to build a more mature Enterprise Risk Management approach.



Measuring our progress

PwC Australia will publish our progress in meeting our commitments until changes are fully embedded. Our Governance Board, to be led by an independent Chair, will oversee our progress and reporting and ensure there is independent verification of our progress.





Part Two: PwC Australia's Action Plan

The Action Plan flows from our Five Commitments to Change, which are reconciled below with each of Dr Switkowski's related recommendations.



Commitment One: Put our purpose and values at the core of everything we do

We **accept both** of Dr Switkowski's recommendations relating to purpose and values and commit to the following:

Put our purpose and values at the core of everything we do – a program of work will embed our focus on purpose and values and a gap-analysis will be undertaken to develop a firm-wide target culture focused on restoring trust. Our purpose and values will guide all aspects of our work to implement the Action Plan.

Recommendation 17: 17.1 Implement program of work to embed focus on purpose and values

The culture gap analysis being performed will direct us to where we need to enhance and build the understanding of and commitment to our purpose and values. It also forms the foundation of the global leadership framework we will be rolling out to all people leaders (partners and staff).

Storytelling and role modelling of our purpose and values are being built into the engagement and communications plan supporting the Action Plan. By showcasing for our people how the purpose and values are brought to life everyday through our actions, conversations and critical symbols, we will bring them to life.

Action to be implemented by end **December 2023**.

Recommendation 18: 18.1 Conduct gap-analysis to a firm-wide target culture focused on restoring trust

An initial culture gap analysis is underway using existing material including engagement surveys and cultural work that has been done in the separate businesses. The work done in the Assurance business focused on embedding critical behaviours and this work has been reported on to the Audit Quality Advisory Board that has advised that business since 2020 (having been established in late 2019).

The initial culture gap analysis assessment will inform the design of an extensive culture program that will bring in external experts and is expected to run from January 2024 - December 2025.

Action to be implemented by end **December 2025**.





Commitment Two: Increase the independence and effectiveness of our Governance Board



We **accept all six** of Dr Switkowski's recommendations relating to the role of the Board of Partners (Governance Board) and commit to the following:

Increase the independence and powers of our Governance Board – we will change the board composition to increase its independence, clarify and restate the role, powers and practices of the Governance Board to enhance its effectiveness. We will revise the CEO election process and have the independent non-executive Board members lead the candidate selection process.

The ASX Corporate Governance Principles and Recommendations provide a strong corporate governance framework and, to the extent feasible, we will apply them to PwC Australia. This will include the appointment of at least three independent non-executives to our Governance Board, including a non-executive Chair, and we will publish comprehensive, audited financial statements by September 2025.

In advance of the finalisation of the Independent Review, the Governance Board has initiated a comprehensive review and reset of the composition, authority and activities of the Board, including the identification of changes required to our Partnership Agreement. Some of the lessons we have learned from the implementation of our external Audit Quality Advisory Board have also been embraced, as an external lens challenging our approach to audit quality has served us well in the Assurance business.

In consultation with our partners, as the owners of PwC Australia, changes will be proposed to facilitate:

- A significant increase in the independence of the Governance Board, including the number of independent non-executives and the removal of the requirement for the Board Chair to be a partner of the firm. It is the intention that an independent Board Chair will be appointed.
- The Governance Board having the appropriate level of authority to appoint and remove the CEO.
- An increase in the authority of the Governance Board with respect to strategy, risk and culture.
- The resetting of the Board's responsibilities and working practices so that it can drive a stronger focus on oversight and challenge of the CEO and executive decision making.

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

1.1 The Governance Board will appoint three independent non-executives to the Board as soon as possible. This goes beyond the announcement of 8 May 2023 to appoint two independent non-executives to the Board. An external search firm has been appointed to assist the firm in this process.

1.2 Changes to the Partnership Agreement will be proposed to allow for a majority of independent non-executives.

1.3 The current Partnership Agreement requires that a PwC partner be the Board Chair. A proposal to remove this requirement will be put to partners and PwC will move to appoint an independent Chair as soon as practicable.

Actions to be implemented by end June 2024.





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

2.1 A comprehensive review of the powers, duties and responsibilities of the Governance Board and the CEO is already underway to ensure that the requisite authority is provided to the Board in respect of strategy, risk, finance, culture and succession planning.

2.2 The Governance Board is currently redesigning its sub-committee structure and related terms of reference to increase the focus and independence of oversight of risk, ethics and public interest matters. This will also include an expansion of the remit of the Leadership, Succession and Nominations Committee.

2.3 More timely and comprehensive reporting of issues to the Board by the CEO and Management has commenced and will be further improved with reference to the Review's findings. Adherence to these protocols will form part of the performance assessment of the CEO and Management going forward.

Actions to be implemented by end **March 2024**.

Recommendation 3: Revise the CEO appointment process

3.1 Proposals to update the mandate of the Governance Board will be put to partners to allow for the appointment and removal of the CEO. The process of selection of the CEO will be led by our independent non-executives. The consultation process with the PwC Global Network will be enhanced as part of the changed mandate.

Action to be implemented by end **March 2024**.

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

4.1 A comprehensive skills and experience framework for the selection of the Governance Board will be developed, together with the establishment of a formal professional development curriculum focusing on excellence in governance.

Action to be implemented by end **March 2024**.

Recommendation 5: Design and implement Board succession planning

5.1 Succession planning is currently being undertaken to identify future internal and external candidates for Board membership, aided by the use of a skills matrix incorporating core governance capabilities, skills, experience and background.

Action implemented and practice ongoing.

Recommendation 6: Regularly review Board effectiveness

6.1 The Governance Board will undertake an internal annual assessment against a comprehensive suite of performance measures, with an externally facilitated assessment to be undertaken every three years.

Action to be implemented by end **September 2024**.

Additional PwC Australia Action

24.1 Publish comprehensive, audited financial statements by September 2025. In addition, other reporting required by the ASX Corporate Governance Principles including a Remuneration Report will be published. Action to be implemented by end **September 2025**.



Commitment Three: Improve the discipline and rigour of decision making



We **accept both** of Dr Switkowski's recommendations relating to Senior Leadership Oversight and commit to the following:

Enhance the rigour and transparency of decision making – in September 2023 our most senior executive group (formerly known as the Executive Board) was renamed the Management Leadership Team. The new Management Leadership Team will be defined and formalised as the enterprise-level decision making and risk management forum, and will be improved through enhanced operating and decision-making disciplines.

A key focus of the new MLT is to ensure that it acts on enterprise-level decision making rather than the previous business model of "Three world-class businesses". A new "One Firm" focus will permeate all decisions and communications and examples of this approach have already been implemented and are outlined in the detail below.

Recommendation 7:
Define and formalise the role of the senior executive forum

- 7.1** Terms of reference for the Management Leadership Team have now been approved and include the distinctions suggested by Dr Switkowski. **(Complete)** Delegations are currently under review.
- 7.2** The Chief Risk and Ethics Leader is currently working with the People Leader on the firm's consequence management processes and accountabilities. Some immediate changes to the consequence management framework were made in July 2023.
- 7.3** A formal Management Risk Committee will be established with a clear charter and focus on enterprise level risks and relevant delegations. A formal Client Committee has already been established and the first meeting was held on 31 August 2023. **(Complete)** The purpose of this delegated Management Leadership Team committee is to ensure that key client decisions that may impact risk and reputation, are made on an enterprise-wide basis with all stakeholders represented.

Actions to be implemented by end December 2023.

Recommendation 8:
Improve operating and decision-making disciplines of the senior executive forum

- 8.1** The focus of the secretariat supporting the Management Leadership Team has been improved since July 2023 and includes improved formal and more detailed minute taking, decisions and action logging.
- 8.2** Collective decision making with a "One Firm" focus has been reinforced for the new Management Leadership Team who will be incentivised using a firm scorecard (referred to in the Commitment Four section below).

Actions implemented and practices ongoing.





Commitment Four: Strengthen risk and conflict management and accountabilities



We **accept all five** of Dr Switkowski's recommendations relating to Risk Governance and Compliance, **all three** recommendations relating to Issues Management and **all three** recommendations relating to remuneration and consequence management.

We commit to the following:

Strengthen risk and conflict management – central risk management will have a prominent 'voice', clear mandate and be supported by an external Chief Risk Officer (CRO) appointment, improved functionality of risk-related forums, strengthened approach to conflicts of interest, as well as uplifting the rigour and transparency of issues management.

This is being actioned in a number of different ways including investing significantly in the central risk function and bringing outside thinking to the way enterprise risk is managed, reported and governed. Specific client risk has generally been well managed in the businesses but investment in enterprise-wide processes is required. The strengths of the Assurance practice in this area will be leveraged in this process. The sale of PwC Australia's Government Business was announced on 25 June 2023. This will reduce certain inherent potential conflicts of interest but not eliminate the need for improvements in our conflict management systems and controls.

Change the way we measure success for partners and the firm – introduction of minimum standards to qualify for a remuneration increase such as demonstrated ethical behaviours in line with our values, restatement of behavioural expectations for partners and the application of significant visible consequence for breaches, including consequences for behaviours discovered after partners have left the firm.

Recommendation 9:
Substantially improve enterprise risk management capability

- 9.1** A full time Chief Risk and Ethics Leader has been appointed to the Management Leadership Team, reporting to the CEO. This role has no client responsibilities. **(Complete)**

- 9.2** The process is underway to appoint an enterprise-wide Chief Risk Officer with significant corporate experience. The responsibilities and mandate of this role will focus on enterprise-wide risk management and will also have no client responsibilities.

- 9.3** A detailed capability assessment with respect to enterprise risk is underway but will be an immediate responsibility of the new enterprise-wide Chief Risk Officer, including additional training requirements as required.

Actions to be implemented by end **March 2024**.

Recommendation 10:
Embed clearer accountabilities for risk across the firm

- 10.1** Business Risk leadership now reports to the Chief Risk and Ethics Leader, with dotted reporting lines to Business Leadership. **(Complete)**





10.2 A detailed review of risk accountabilities and governance is currently underway including responsibilities and processes across Business and Central Risk to support an effective 'Three Lines of Defence' model. Changes to accountabilities and roles will be completed following this review.

Actions to be implemented by end **December 2023**.

Recommendation 11:
Fix gaps in compliance risk management

11.1 A Head of Compliance was appointed in July 2023, reporting to the Chief Risk and Ethics Leader. **(Complete)**

11.2 A review of our compliance framework maturity has been completed. The Head of Compliance has a number of priority initiatives with 2023 completion dates underway. The plan to address remaining gaps and to increase the voice of compliance will be progressively implemented.

Actions to be implemented by end **December 2024**.

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

12.1 A Management Leadership Team Risk Committee will be established with membership from the full Management Leadership Team. Responsibilities will be formally defined and include more dedicated time to review formal enterprise risk reporting.

A formal Client Committee has been established and has already met as outlined above in Recommendation Seven.

Action to be implemented by end **December 2023**.

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

13.1 A detailed review of the firm-wide approach to conflicts of interest has commenced. The revised approach will leverage the practices used currently in the Assurance and Securities businesses.

13.2 A standardised conflict management and reporting process will be implemented, leveraging the strong practices in the Assurance business. A new contract management system is currently being piloted.

13.3 A refreshed and additional comprehensive training and education program on conflict identification and management will be rolled out to all PwC Australia partners and staff. This program will be reinforced with change management support and continuing modules in recurring training programs.

13.4 The firm's process for external Board appointments is under review and an updated policy incorporating close oversight of approval processes will be launched and implemented.





13.5 PwC Australia has announced it will no longer make political donations. **(Complete)**

13.6 Completion of the sale of PwC Australia's core Government business is anticipated to finalise in October 2023.

Actions to be implemented by end **June 2024**.

Recommendation 14:
Improve focus on issues management

14.1 An incident/issues management system along with revised processes is currently being assessed and will be implemented. All significant breaches will be reported to and considered by the Management Leadership Team and Governance Board and considered as part of the consequence management process (refer Recommendation 15). Lessons learned through this process will be incorporated into communications and learning and development material.

14.2 An assessment of the Office of General Counsel function is underway.

Actions to be implemented by end **March 2024**.

Recommendation 15:
Redefine and clarify accountabilities for conduct risk

15.1 Our consequence management framework is under review and changes will be recommended by December 2023. Amendments will be made to clarify that the framework addresses business conduct risk as well as personal conduct matters and applies regardless of the means by which the conduct at issue was reported or discovered.

15.2 As well as regular training on ethics for all of our people, tools and materials to support good decision making founded on the PwC Code of Conduct and the profession's Code of Ethics will be made available and kept up to date on a readily accessible platform. This platform will also make available materials to support learning and development and will be in place by December 2023.

Actions to be implemented by end **December 2023**.

Recommendation 16:
Improve rigour of regulatory engagement

16.1 Regulatory engagement has been strengthened by establishing central leadership and oversight to support business led engagement. The Chief Risk and Ethics Leader has overall ownership for regulatory engagement. The CEO, Chief Risk and Ethics Leader and General Counsel are now each involved in regulator dialogues alongside Business leaders and there is regular reporting to and discussion with the Management Leadership Team on these matters. **(New practice complete and ongoing)**

Action **implemented and practices ongoing**.





Recommendation 21: Review partner performance management framework

21.1 A new FY24 Balanced Scorecard was launched to partners on 7 September 2023. This includes a significant emphasis on non-financial measures in areas such as ethics and integrity, culture and experiences, client centricity and collaboration. Growth measures are now “One Firm” and are based on sustainable growth. **(Complete for FY24 scorecard)**

21.2 Additional changes to the partner performance management framework will be implemented following completion of the PwC Australia strategy and the review of the Consequence Management Framework noted in Recommendation Seven above. This includes consideration of changes to penalties, negative and positive adjustments. The strategy will be launched in November 2023. The framework will include clearer firm-wide minimum standards with a focus on leadership, integrity and other key values.

Actions to be implemented by end **September 2024.**

Recommendation 22: Strengthen partner remuneration process

22.1 The FY23 partner remuneration process is nearing completion and involved a strong focus on behaviours, leadership and a comprehensive “moderation” and review process. This process will be further enhanced for the FY24 process (to be completed by September 2024) with additional mechanisms for cross firm input into partner outcomes.

22.2 As part of the review of the PwC Australia Partnership Agreement, additional clawback and deferral mechanisms will be proposed, including consequences for behaviours discovered after partners have left the firm.

Actions to be implemented by end **September 2024.**

Recommendation 23: Provide greater transparency of behavioural expectations and consequence outcomes

23.1 A significant focus on values and behavioural expectations is included in the Action Plan (refer Recommendation 17). Transparent reporting of behavioural issues and consequence management outcomes will be significantly uplifted for the partner cohort, commencing with the results of the FY23 partner remuneration process.

Actions to be implemented by end **September 2024.**





Commitment Five: Embed a culture and practice of constructive challenge

We **accept both** of Dr Switkowski's recommendations relating to embedding a challenger culture, noting that the recommendations related to purpose and values are also enablers of this outcome.

Embed a culture that empowers our people to ask questions and challenge decisions – a program of work will embed our purpose and values and instil a 'challenger culture' where our partners and staff feel empowered to question the decisions and behaviours of others, including those in authority. We will strengthen the voice and capability of our 'ethical gatekeeper' teams including legal, risk and ethics.

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

19.1 A comprehensive program of work will be designed following completion of the gap analysis referred to in recommendation 18. External experts will be involved and the program will run from 2024 - 2025. Design will be complete by December 2023 leveraging work already performed through collection of engagement data and feedback and culture work performed in each of the businesses.

19.2 The program will focus on understanding and counteracting the "shadow sides" of PwC Australia's cultural strengths as outlined on page 46 of Dr Switkowski's Independent Review.

Work on tone from the top has already started with the following initiatives underway:

- increased communication with all partners and staff - including feedback sessions about key initiatives and policies. A firm-wide engagement session will be held in October 2023.
- strategy and Action Plan engagement sessions for all partners seeking feedback and challenge.
- increased use of survey tools to test key initiatives and policies.

19.3 Leadership development is a critical pillar to developing a culture of effective challenge. PwC Australia will be an early adopter of a new PwC global leadership framework focused on partners and senior staff. In the context of creating a challenger culture, PwC Australia's adoption of this framework will prioritise focus on behaviours such as 'I speak the truth even when it is hard' and 'I act ethically and speak up about inappropriate behaviour'.

Actions to be designed by **December 2023** and implemented by end **June 2025**.



Recommendation 20:
Reduce relationship
biases for senior roles

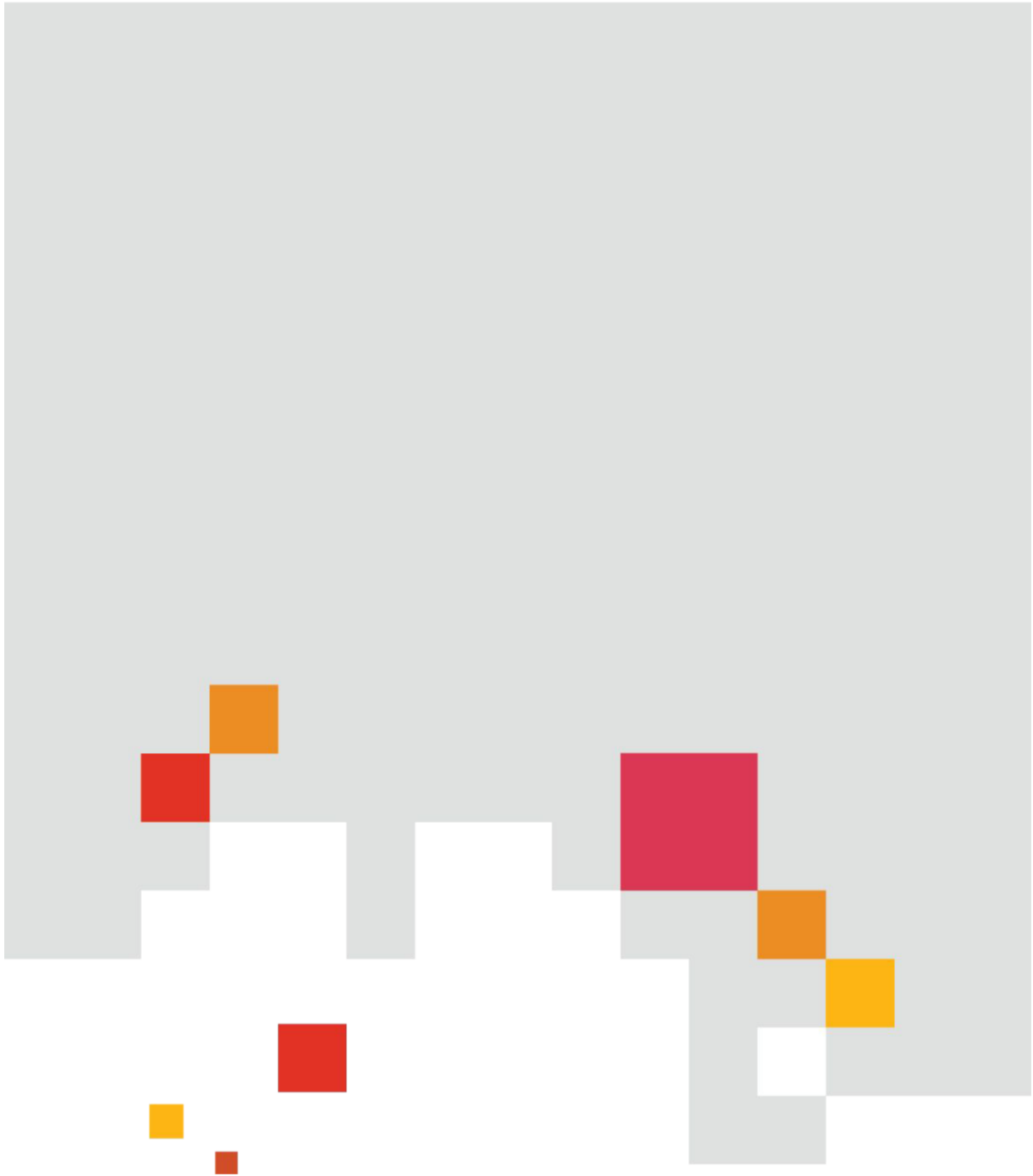
20.1 This process has recently changed so that any member of the partnership can apply for senior roles. Applicants are then interviewed and selected based on their merits. This was agreed by the Management Leadership Team on 17 July 2023 and communicated to partners shortly thereafter. The new process was implemented in September 2023 and is being used to fill senior roles going forward. **(Complete)**

20.2 A renewed vision for PwC Australia was communicated to partners on 7 September 2023. This vision intends to reset the direction of the firm, including in respect of our cultural and ethical ambitions to restore trust in PwC Australia.

This was combined with a new Balanced Scorecard as explained in Recommendation 21. **(Complete)**

Actions implemented and practices ongoing.





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APPENDIX II: Australian Tax Advisory Firm Governance Best Practice Principles

A copy of the Best Practice Principles document is included below but can also be accessed via <https://www.pwc.com.au/tax/assets/home/tax-advisory-firm-governance-best-practice-principles.pdf>

AUSTRALIAN TAX ADVISORY FIRM GOVERNANCE

Best practice principles

August 2022

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Foreword

The best practice principles (the "Principles") have been developed by Deloitte Australia, EY Australia, KPMG Australia and PwC Australia, in connection with provision of tax advice, to complement compliance with the legal, professional and regulatory regime applying to them and comply with the current and future requirements relating to government procurement. The Principles should also build further confidence and trust amongst wider stakeholders, including clients, the wider community, regulators, governments and other agencies. Other firms may also choose to adopt these Principles, in a manner which is appropriate to the size and circumstances of each such firm.

Each of the firms who have adopted the Principles have separately assessed the Principles and determined that it is appropriate for that firm to support and adopt them.

The Australian Taxation Office (ATO), Tax Practitioners Board (TPB), professional associations, taxpayers and tax advisors have separate roles and responsibilities with respect to the effective operation of the tax system. Whilst taxpayers are responsible for their own tax affairs, tax advisors play an important role in advising them in this regard.

The Principles provide an objective basis against which firms can test their governance of higher risk tax advisory services. It is voluntary for firms to apply the Principles.

All firms who adopt these Principles do so as competitors and as such acknowledge that these Principles do not in any way seek to restrict the provision of tax services or in any way lessen competition.

Background

Tax advisors perform an important role in making a positive contribution to the effective operation of the tax system. Our self-assessment tax system together with the complex and frequently uncertain nature of our tax laws, necessitate taxpayers seeking advice in respect of their tax affairs. Indeed, the provision of high-quality advice underpins the self-assessment regime and builds confidence in the tax system.

Tax advisors have a legal obligation to act in the best interests of their clients and act within the law, including taking reasonable care in advising their clients and ensuring that their advice is at least reasonably arguable based on the law as it stands at the time.

There are also multiple legal, professional and regulatory regimes that set the standards for tax advisors and provide strong external oversight together with appropriate penalties and sanctions. These include:

- Tax Agents Services Act 2009 (Cth) (TASA), administered by the TPB, which ensures that tax agent services are provided to the public in accordance with appropriate standards of professional and ethical conduct with significant sanctions for non-compliance;
- Taxation Administration Act 1953 (Cth) (TAA), administered by the ATO, which contains provisions aimed at deterring the promotion of tax avoidance and evasion schemes, with severe penalties and outcomes for any breach, as well as other provisions such as those which impose various administrative penalties for making false or misleading statements or taking a position that is not reasonably arguable;
- Accounting Professional and Ethical Standards (APES) which, amongst other things, set the standards for the provision of quality and ethical "Taxation Services" and is mandatory for members of CPA Australia, Chartered Accountants ANZ and Institute of Public Accountants; and
- Legal Profession Uniform Law Australian Solicitors' Conduct Rules 2015 which contains measures relating to legal practitioners providing tax advice.

Scope

The Principles apply to services provided in respect of Australian federal taxation laws by the firms who have adopted the Principles (and by any other affiliated entities owned or controlled by such firms).

These Principles do not override professional duties of the Advisors to their clients nor should they give rise to any conflict under general law, the Tax Agent Services Act or professional regulation, and in the event of any conflict, such general law or professional regulation shall prevail. For these purposes a conflict shall be considered to arise at least where such law or professional regulation would prevent compliance with what would otherwise be required by these Principles.

Tax Services System of Quality Management

Firms providing tax advisory services should have a documented tax services system of quality management which underpins the firm's ability to meet the following:

- acting with integrity;
- providing advice to their clients which meets or exceeds the reasonably arguable standard;
- taking reasonable care in obtaining the relevant facts and considering wider risk when providing advice;
- working honestly and openly with the Commissioner;
- having appropriate quality control processes in place which are subject to oversight and review;
- meeting relevant legal and regulatory obligations; and
- not engaging in activities which would constitute a breach of the promoter penalty provisions.

The leadership of the firm (CEO, Board, Senior partner or the like) is ultimately responsible for the tax services system of quality management. Where a firm is part of a broader firm construct (such as a network of member firms across a number of jurisdictions) and it uses common global policies and risk management frameworks, it must ensure that the latter are appropriately supplemented to address the relevant Australian legal and regulatory requirements.

The tax services system of quality management should include policies and processes in relation to the Principles as set out below:

Tax advisory principles

Principle 1 – Proscribed engagements

- 1 The firm has procedures aimed at preventing it from knowingly or recklessly advising on arrangements when providing advice on Australian federal taxation laws which involve:
 - a the creation of documents, accounting entries or disclosures that are intended to misrepresent the true arrangement or transaction;
 - b a lack of disclosure to the ATO for their effectiveness;
 - c tax evasion, fraud or other criminal tax-related conduct; and
 - d promotion of tax exploitation schemes.

Principle 2 – Governance of higher risk engagements

Principle 2.1 – Higher risk engagements

- 1 The firm has established triggers and protocols, which are appropriate having regard to the firm's size and circumstances, to identify and deal with higher risk engagements in providing services in relation to Australian federal taxation laws. The triggers include:
 - a transaction size;
 - b positions that may have systemic risks to government revenue;
 - c transactions exhibiting fact patterns identified in a Taxpayer Alert or other arrangements which the ATO has identified as an area of focus or risk;
 - d contingent and other non-traditional fee arrangements;
 - e advice contrary to ATO published positions;
 - f where a client wishes to take a position that the firm considers not to be reasonably arguable; and
 - g transactions and arrangements which carry other features indicating a higher than normal level of risk.

Principle 2.2 – Engagement acceptance

- 1 The firm issues letters of engagement to clients in relation to services concerning Australian federal taxation laws that have satisfied its client acceptance procedures, articulating:
 - a all relevant deliverables within the scope of the engagement and any materially relevant areas not covered in the engagement;
 - b that the onus is on the client to provide full and frank instructions and full and true disclosure of all relevant facts, including where appropriate the commercial rationale, on which advice is being sought;
 - c the key personnel and their role and responsibility in the engagement team;
 - d terms and conditions, including fee arrangements and basis of calculation; and
 - e limitations on reliance on the advice.

- 2 The scope of engagement is ultimately a matter for the client to determine, however, best professional endeavours should be employed to recommend a scope of engagement that adequately addresses relevant issues and risks.
- 3 The firm should not require that an engagement for the provision of tax advice be established as a legal services engagement. However, provision of tax advice where it is a legal service and would be provided by appropriately qualified personnel may be established as a legal services engagement at the client's request – i.e. it is for a client to decide whether they seek to obtain legal advice from lawyers in relation to any particular matter.

Principle 2.3 – Critical tax sensitive facts and circumstances

- 1 Tax advice should be based on a comprehensive view of relevant facts, and where appropriate, relevant and reasonable assumptions. This does not include verifying or auditing the accuracy of the client's statement but may involve making further enquiries of the client.
- 2 In taking reasonable care to obtain the relevant facts, reliance should not be placed upon information provided by the client if the engagement partner knows or ought to reasonably know that the information is not credible. In this case, the engagement partner should make further enquiries or take such further action as they consider appropriate.
- 3 Where, despite best professional endeavours as set out in Principle 2.2.2, the scope of the advice is narrowed, this should clearly be set out in the advice.

Principle 2.4 – Supporting advice and legal opinions

- 1 Reliance shall not be placed upon supporting advice or legal opinion, if the engagement partner knows or ought reasonably to know that advice is not credible.

Principle 2.5 – Reasonably arguable positions

- 1 In the course of advising a taxpayer, it is to be expected that various positions may be considered or discussed, some of which may not be reasonably arguable, prior to providing the advice. However, recommended positions or advice provided should be at least reasonably arguable, based on the law as it stands at the time and the known facts. In this regard, there should be an assessment at the commencement of an engagement and as the engagement proceeds.
- 2 In some instances, the client may have previously taken, or may intend to take, positions which in the engagement partner's view may not be reasonably arguable. In these instances, the engagement partner should outline how he or she assesses such positions and advise the client about the risk assessment of the matter, ATO engagement options, disclosure obligations and penalty considerations. Depending on the scope of the engagement, the engagement partner may also comment on alternative positions and arrangements that are not reasonably arguable. The engagement partner may also assist the taxpayer in rectifying their affairs in such a situation.
- 3 Positions adopted by a taxpayer with respect to their tax affairs are ultimately a matter for the taxpayer. Notwithstanding the engagement partner's recommendation or advice, a taxpayer may decide to proceed in a manner that is not reasonably arguable in the engagement partner's opinion. In that case, the engagement partner should consider their various legal and professional obligations.
- 4 There will be situations where the application of the law to a matter is not clear and where reasonable minds will differ. If the ATO has a different view on a matter, that does not of itself mean that the position of a taxpayer or an advisor is not reasonably arguable.

Principle 2.6 – Documenting the advice provided to the client

- 1 A written note is made of all final advice provided to the client including (as materially relevant) facts, assumptions, reasoning or analysis undertaken to reach the conclusion.

Principle 2.7 – Independent review process

- 1 Higher risk engagements should be reviewed by another partner or internal review panel. In addition, there may be specialist involvement, engagement with the ATO or advice may be sought from Counsel.
- 2 Procedures are in place for escalation of relevant issues to the firm's tax leadership or other internal advisory panels and governance bodies.

Principle 3 – Consequences for failing to adhere to the Principles

Principle 3.1 – Failure to adhere to the Principles

- 1 Partners who fail to adhere to the Principles are subject to the firm's disciplinary processes and may be referred to the relevant professional body where necessary.

Principle 3.2 – Partner competence

- 1 Any concerns over a partner's technical competency is addressed through capability improvement plans.

Principle 4 – Quality management and process review

Principle 4.1 – Design effectiveness review

- 1 The Firm has a tax services system of quality management in place that is designed to enable compliance with the Principles.
- 2 The design effectiveness of the firm's relevant tax services system of quality management is independently reviewed at least every three years. Such reviews may be by an external party or an internally qualified party acting independently.

Principle 4.2 – Operational effectiveness review process

- 1 The firm has a monitoring process designed to provide it with reasonable confidence that the policies and procedures relating to the tax services system of quality management are relevant, adequate, and operating effectively.
- 2 Higher risk engagements are subject to the processes set out in Principle 2.7.
- 3 A sample of higher risk engagements are periodically subject to a further review.

Principle 4.3 – Annual confirmation

- 1 Based on the output from the review and monitoring processes in place (described in Principles 4.1.2 and 4.2.1), the firm publishes an annual statement that it has reasonable confidence that the policy and procedures, which facilitate compliance with the Principles, are operating effectively.

APPENDIX III: Documents Made Available by PwCA for this 2024 Review

The following documents were provided for review as part of the PwC: Design Effectiveness Review of Tax Governance and Internal Control Framework, March 2024

Document Number	Folder Name	Document Name
1	FY23 TLS QMS Reference Documentation	FY23 TLS QMS - PwC Australia - Reporting Overview
2		TLS QMS Req 1 – Reference Documentation
3		TLS QMS Req 2 – Reference Documentation
4		TLS QMS Req 3 – Reference Documentation
5		TLS QMS Req 4 – Reference Documentation
6		TLS QMS Req 5 – Reference Documentation
7		TLS QMS Req 6 – Reference Documentation
8		TLS QMS Req 7 – Reference Documentation
9		TLS QMS Req 8 – Reference Documentation
10		TLS QMS Req 9 – Reference Documentation
11		TLS QMS Req 10 – Reference Documentation
12		TLS QMS Req 11 – Reference Documentation
13		TLS QMS Req 12 – Reference Documentation
14		TLS QMS Req 13 – Reference Documentation
15		TLS QMS Req 14 – Reference Documentation
16		TLS QMS Req 15 – Reference Documentation
17		TLS QMS Guide July 2023 (Final)
18	QMS Req 1 – Leadership Responsibility	FY23 QMS Copy - FA Strategy
19		FY23 QMS Copy - FA Capabilities
20		FY23 QMS Copy - Statement from Board of Partners - 8 May 2023
21		FY23 QMS Copy - Acting CEO Firmwide Update - 25 June 2023
22		FY23 QMS Copy - Acting CEO Team Update - 11 May 2023
23		FY23 QMS Copy - CEO Update - New Executive Board - 4 July 2023
24		FY23 QMS Copy - FY24 Executive Board
25		PwC's Governance Board
26		FY23 QMS Copy - Business Risk Partner Role (2021)
27		FY23 QMS Copy - Financial Advisory Team Update - July 2023
28		Financial Advisory Leadership Team (Internal website)
29		FY23 QMS Copy - FALT R&Q Update - 10 October 2022
30		FY23 QMS Copy - FY23 LiQ Plan and Comms

Document Number	Folder Name	Document Name
31		FY23 QMS Copy - FALT Paper on New FA Higher Risk Engagements Policy
32		FY23 QMS Copy - FY22 TLS QMS - PwC Australia - Reporting Overview
33		FY23 QMS Copy - FY23 LiQ Results - FALT Report
34		FY23 QMS Copy - FALT R&Q Update - 27 March 2023
35		FY23 QMS Copy - GBRC Report - FA Risk Profile - 8 June 2023 DRAFT
36		FY23 Redacted QMS Copy - FA R&Q Review Results 2023 - Proposed Overall Ratings - 27 July 2023
37		FY23 QMS Copy - FA R&Q Update - 15 August 2023
38		FY23 QMS Copy - FA Quality Dashboard - 1Q23
39		FY23 QMS Copy - FA Quality Dashboard - 2Q23
40		FY23 QMS Copy - FA Quality Dashboard - 3Q23
41		FY23 QMS Copy - FA Quality Dashboard - 4Q23
42		Enterprise Risk Management (Internal website)
43		1. Permanent QMS Copy - Enterprise Risk Management Training
44		1. Permanent QMS Copy - Tone at the Top Self Assessment
45		FY23 QMS Copy - FA LiQ Survey Comms
46		FY23 QMS Copy - Financial Advisory Team Update - October 2022
47		FY23 QMS Copy - Leadership in Quality Survey - Now Live
48		FY23 QMS Copy - Financial Advisory Team Update - February 2023
49		Business Continuity Management (Internal website)
50		FY23 QMS Copy - Tone from the Top Leadership Communications
51		FY23 QMS Copy - Combined (all tax) Our approach to complex tax advice - 2023 presentation deck (staff session)
52		FY23 QMS Copy - Our approach to complex tax advice and legal services - 2023 (PwC Private)
53		Client Listening (Internal website)
54	QMS Req 2 – R&Q Leadership	FA Risk & Quality Team (Internal website)
55		FY23 QMS Copy - Connected Compliance - December 2022
56	QMS Req 3 – Business Planning & Risk Assessment	Financial Advisory Strategy (Internal website)
57		FY23 QMS Copy - FA Risk Profile - August 2023
58	QMS Req 4 – Accountability Framework	4. Permanent QMS Copy - Partner Consequence Management Framework - updated 17 August 2022
59		4. Permanent QMS Copy - Risk & Quality Guidance
60		Consequence Management Policy (Internal policy document)

Document Number	Folder Name	Document Name
61		FY23 QMS Copy - Acting CEO Staff Update - 3 July 2023
62		FY23 QMS Copy - Redacted FY23 R&Q Metrics Report
63		FY23 QMS Copy - FA Engagement Reviews - A briefing for engagement leaders - September 2022
64		4. Permanent QMS Copy - FA R&Q Reviews Moderation Process
65		FY22 QMS Copy - PwC Australia Transparency Report FY22
66	QMS Req 5 – Purpose, Values, GTCOC and TPP	FY23 QMS Copy - Financial Advisory - Mojo Results Deep Dive 2023
67		Complex Tax Advice Protocols (Internal policy document)
68		Financial Advisory Higher Risk Engagements Policy (Internal policy document)
69		FY23 QMS Copy - Salesforce Risk Questionnaire Structure - 26 June 2023
70		FY23 QMS Copy - Engagement Acceptance High Risk TPP Notification
71		FY23 QMS Copy - TPP Overview
72		FY23 QMS Copy - FY23 Tax Policy Panels - TPP Effectiveness Monitoring - Aus Report
73		FY23 QMS Copy - Redacted FY23 TPP Reviews
74		
75		Australian Tax Advisory Firm Governance - Best Practice Principles
76		PwC Australia Tax Services
77		FY23 QMS Copy - Tax Advisory Firm Best Practice Principles - PwC Application FY23
78		5. Permanent QMS Copy - Large Market Tax Adviser Principles
79		5. Permanent QMS Copy - PwC Tax Governance Review Final Report - March 2021
80		FY21 QMS Copy - Bruce Quigley Review and TPP Update (GB Presentation 19 August 2021)
81		FY22 QMS Copy - Federal Court Decision - JBS
82		Refreshed MDP Protocols FINAL (Internal policy document)
83		Making Ethical Business Decisions Policy (Internal policy document)
84		FY23 QMS Copy - Essential IQ Refresher 2
85		Speak Up (Internal website)
86		Engagement Lifecycle - Client Acceptance (Internal website)
87		Salesforce Hub - Client Acceptance (Internal website)
88		Engagement Lifecycle - Engagement Acceptance (Internal website)
89		Keeping You Informed - Becoming the leading professional services firm
90		TPB Media Release - 23 January 2023

Document Number	Folder Name	Document Name
91		TPB Media Release - 25 July 2023
92		Inquiry into management and assurance of integrity by consulting services
93		CAANZ Media Release - 4 May 2023
94		NSW Government's use and management of consulting services
95		Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry
96		FY23 QMS Copy - Tax Code of Conduct Training
97		FY23 QMS Copy - Delivering Distinctive Quality in Financial Advisory
98		FY23 QMS Copy - R&Q Fundamentals for Graduates
99		FY23 QMS Copy - Vantage Completion Reports
100	QMS Req 6 – Independence	FY23 QMS Copy - RMP Meeting Slides - 12 October 2022
101		Folder - FY23 QMS Copy - Essential IQ Annual Independence Refresher - February 2023
102		Folder - FY23 QMS Copy - Essential IQ New Starter Independence
103		Folder - FY23 QMS Copy - Personal Independence Training
104		Folder - FY23 QMS Copy - IESBA / AFS training
105		Salesforce Risk Module (Internal website)
106		Independence Office Australia - Personal Independence (Internal website)
107		Checkpoint Partner Service (Internal website)
108		FY22 QMS Copy - Independence Checkpoint Partner Support Guidance
109		Automated Investment Recording (Internal website)
110		FY23 QMS Copy - Partner Webcast - 6 December 2022 - Project AIR
111		FY23 QMS Copy - IO message to Partners on AIR
112		FY23 QMS Copy - PICT Ready Sessions - Managers, SM, Directors
113		FY23 QMS Copy - Partner PICT Preparation
114		FY23 QMS Copy - FY23 PICT Results for FA and Firm Overall
115		ServiceNow Independence (Internal website)
116		ServiceNow Financial Advisory Risk & Quality (Internal website)
117		Independence Office Australia - Who do I contact in relation to an AFS query? (Internal website)
118		E-AFS Champions_June22
119		IESBA Code Changes - Understanding and applying key concepts (Internal Vantage eLearn)
120		Examples of Independence Guidance/Comms
121		FY23 QMS Copy - Currents Posts - Independence
122		Financial Advisory R&Q Corner- April 2023
123		FY23 QMS Copy - Independence changes - GST Team

Document Number	Folder Name	Document Name
124		AFS Champions: Changes to AFS form with T&S for All Other Services
125		FY23 QMS Copy - PwC External Appointments Approval Platform
126	QMS Req 7 – Client & Engagement Acceptance	Global Client Acceptance and Continuance Policy (Internal policy document)
127		Client Acceptance Guidance (Internal guidance document)
128		FY23 QMS Copy - FY24 TL Master V8 Engagement Acceptance - 14 August 2023
129		FY23 QMS Copy - Engagement Acceptance General High Risk EAP Notification
130		FA Risk & Quality - Public Documents Toolkit (Internal website)
131		Out of Territory Consultations Risk Management Guidance
132		Launch comms & FAQs - New Higher Risk Engagements Policy (Internal guidance document)
133		Ethical Clearance Policy (Internal policy document)
134		Salesforce Hub Relationship Checks (Internal website)
135		Salesforce Hub Authorisation For Services (AFS) (Internal website)
136		FY23 QMS Copy of AFS 2.0 Process Overview
137		5. Client Acceptance Demo Video
138		Engagement Acceptance Demo Video
139		Salesforce Hub (Internal website)
140		R&Q Systems & Help (Internal guidance document)
141	QMS Req 8 – Human Capital	Tax & Legal Business Solutions Learning Hub (Internal website)
142		Tax Agent Registration (Internal website)
143		FA Risk & Quality - Legal Services Toolkit (Internal website)
144		Accreditation Application for Practising Lawyers (Internal website)
145		Tax Markets & Knowledge Hub (Internal website)
146		FY21 QMS Copy - Salesforce JBR Module
147		PwC Academy (Internal website)
148		PwC Academy School of Craft (Internal website)
149		PwC Academy School of Humanity (Internal website)
150		PwC Academy School of Leadership (Internal website)
151		PwC Academy School of Exploration (Internal website)
152		PwC Academy School of Impact (Internal website)
153		Digital Hub Australia - Digital Academies (Internal website)
154		Digital Hub Australia - Digital Accelerators (Internal website)
155		PwC Team Leader Hub (Internal website)
156		Vantage Learning (Internal website)
157		Together Anywhere Policy (Internal policy)

Document Number	Folder Name	Document Name
158		FY23 QMS Copy - FA DI&W Plan FY23
159		Rest and Recovery Leave Policy (Financial Advisory and Consulting only) (Internal policy)
160		FY23 QMS Copy - Safe & Respectful Teams Workshops
161		FY23 QMS Copy - New Parental Leave Policy
162		Parental Leave Policy (Internal policy)
163		My Leave Policy (Internal policy)
164		FY23 QMS Copy - FY23 P&O Training Slides
165		FY23 QMS Copy - New Partner R&Q Meeting Agenda
166		FY23 QMS Copy - Tax Agent Code of Conduct eLearn
167		Australian Policy - Confidentiality agreements with clients, prospective clients or third parties (Internal policy)
168		FY23 QMS Copy - Confidentiality & Regulators Training
169		FY23 QMS Copy - Confidentiality Agreements Comms
170		Confidentiality & Non-Disclosure Agreements (CAs/NDAs) Form
171		PwC People Council (Internal website)
172	QMS Req 9 – Engagement Leader Responsibility	Directors Appointed as Engagement Leaders - Tax, Legal & PwC Private (Internal policy)
173		FA 4 Eyes Review & Signing Rights Policy (Internal policy)
174		FY23 QMS Copy - FY23 Engagement Selection Process
175		ServiceNow - Business Risk - Financial Advisory Enquiry Form
176		Information Security & Data Incidents (Internal website)
177		FA Risk & Quality - Cyber Security Toolkit (Internal website)
178	QMS Req 10 - HREs	FY23 QMS Copy - Launch of HRE Policy - Financial Advisory Team Update October 2022
179		Financial Advisory R&Q Corner October 2022
180		FY23 QMS Copy - Annual R&Q Update War Stories Training - December 2022
181		Records and Data Retention policy
182		FA Risk & Quality - Documentation Toolkit (Internal website)
183	QMS Req 11 - ECRs	FY23 QMS Copy - ECR Assessment Process - June 2023
184		FY23 QMS Copy - FY23 ECR Template (Non Deals)
185		FY23 QMS Copy - FY23 ECR Demerit Points
186		FY23 QMS Copy - FY23 SDC ECR Process Manual Pt1
187		FY23 QMS Copy - FY23 SDC ECR Process Manual Pt2
188		FY23 QMS Copy - FY23 ECR - Results Email - High Performing, Compliant, Compliant with Review Comments
189		FY24 Continuous Improvement Plan
190		FY21 QMS Copy - R&Q Reviews Process Transformation
191		FY21 QMS Copy - Digital Showcase Winners
192		11. Permanent QMS Copy - FA R&Q FY22 Continuous Improvement Plan

Document Number	Folder Name	Document Name
193		13. Permanent QMS Copy - FA R&Q FY22 Strategy
194		FY23 QMS Copy - FA File Health Review Program
195	QMS Req 12 - QARs	TLS Quality Assurance Review Program Guidance
196		FY23 QMS Copy - Quality Review Briefing for FA - FY23
197		FY21 QMS Copy - FA R&Q - Enhanced QAR Program FY20
198		Corporate Tax Compliance Australia (Internal website)
199		PwC Private Tax Compliance - End to End Work Process (Internal website)
200		FA Alternate Delivery Model (ADM) (Internal website)
201	QMS Req 13 – R&Q Plan	FY23 QMS Copy - Final FY23 FA R&Q Plan - BAU
202		FY23 QMS Copy - FA R&Q FY23 Strategy - Focus Areas
203		FY23 QMS Copy - FY24 FA R&Q Plan - BAU
204	QMS Req 14 - TPMs	Troublesome Practice Matters (Internal policy)
205		4. Permanent QMS Copy - FA R&Q War Stories FY21
206		4. Permanent QMS Copy - War Stories FY20
207		14. Permanent QMS Copy - War Stories FY19
208	QMS Req 15 - Technology	Digital Hub Australia - Digital Lab (Internal website)
209		Digital Hub Australia (Internal website)
210		Australian Application Portal - Application Inventory
211		FY23 QMS Copy - Incident Response Plan - M-Files
212		FY23 QMS Copy - Cyber Tabletop Exercises
213		FY23 QMS Copy - Data Incident Playbook
214		FY23 QMS Copy - RMP Meeting Slides - 17 May 2023
215		FY23 QMS copy - APM Extract
216		FY23 QMS Copy - BIG Process - August 2022
217		FY23 QMS Copy - BIG Risk Based Approach
218		FY23 QMS Copy - Sample BIG Application Form
219		FY23 QMS Copy - Sample BIG Minutes
220		FY23 QMS Copy - Sample BIG Approval
221		FY23 QMS Copy - BIG Database
222		Australian Application Portal - Application Control Effectiveness
223		FY23 QMS Copy - PwC Asset Classification Assessment Framework
224		FY23 QMS Copy - Risk Tiers and Testing Frequency
225		FY23 QMS Copy - Application / IT Owner One Pager
226		FY22 QMS Copy - SAS Terms
227		FY23 QMS Copy - Sample Application Testing Process
228		AU Microsoft Hub (Internal website)
229	Additional Documents	2023 Annual Compliance Confirmation

Document Number	Folder Name	Document Name
230		30102024_ Current FY24 Risk and Ethics Org Chart
231		Copy of Engagement Letter - Legally Privileged Tax Services FY23
232		Copy of PwC Private Culture Review Process
233		Copy of Statement of Work - Tax Consulting - February 2023
234		Copy of Tax as Legal Escalation Framework
235		Copy of Umbrella Engagement Letter - Corporates - Tax and Legal Services FY23
236		Summary of PwC External Reviews
237		FA internal website & FA Leadership Team as of July 2023
238		FY24 Leadership Roles
239		FA Risk & Quality (Internal website)
240		PwC Code of Conduct April 2021
241		PwC Private Tax (Relevant internal websites)
242		PwC Tax Code of Conduct July 2015
243		TPP Sample Email - Not to Proceed
244		TPP Process - Follow Up Process
245		TPP Process Notes
246		TPP Statistics - FY22 & FY23
247		FA FY24 TLS Leadership Team
248		FA Risk Profile - Live Document
249		2023 Enterprise Risk Management Framework FINAL
250		2023 Enterprise Risk Management Handbook FINAL
251		Enterprise Risk Management Handbook FINAL - July 2019
252		R&E Transformation Workplan Extract at 30 October 2023
253		PwC's Code of Conduct September 2023
254		What We Stand For - PwC's Tax Code of Conduct September 2023
255		Summary of Further Information requested by Bruce Quigley
256		Key Changes to the TLS Quality Management System from FY21- FY23
257		PwC Tax Governance Review August 2023 - Interview Agenda
258		Response to the Recommendations Outlined in Bruce Quigley's PwC Tax Governance Review Final Report March 2021
259	FY22 QMS Documents	Access to all FY22 TLS QMS Submission Documents
260	External Tax Governance Review Nov 20	Access provided to FY20 Tax Governance Review Interview Notes and other documents
261	Interview Notes	Interview Notes - TLS Leader - 21 August 2023
262		Interview Notes - FA People & Quality Leader - 24 August 2023
263		Interview Notes - TPP Chair - 24 August 2023
264		Interview Notes - TPP Chair, TPP Chair for Private and TPP Secretariat - 24 August 2023

Document Number	Folder Name	Document Name
265		Interview Notes - TPP Chair for Private - 24 August 2023
266		Interview Notes - Private Leader, Private Leadership Team - 7 September 2023
267		Interview Notes - Private Risk Management Partner - 7 September 2023
268		Interview Notes - FA R&Q Legal Director - 7 September 2023
269		Interview Notes - FA Leader - 14 September 2023
270		Interview Notes - Global Tax Team Leader, Global Tax Team Risk Management Partner - 14 September 2023
271		Interview Notes - FA R&Q Team - 14 September 2023
272		Interview Notes - FA People & Quality Leader - 21 September 2023
273		Interview Notes - Tax Controversy Team Leader - 21 September 2023
274		Interview Notes - TPP Chair - 21 September 2023
275		Interview Notes - TLS Leader - 28 September 2023
276		Interview Notes - PwC Chief Risk & Ethics Leader - 28 September 2023
277		Interview Notes - TLS Brand & Markets Leader - 17 October 2023
278		Interview Notes - Tax Business Risk Partner - 17 October 2023
279		Interview Notes - FA R&Q Team - 17 October 2023
280		Interview Notes - TLS Leader, FA R&Q Leader and FA R&Q Team members - 17 October 2023
281		Interview Notes - Chief Risk & Ethics Leader, Head of Compliance - 9 November 2023

APPENDIX IV: Interview Summary for this 2024 Review

PwC Interviews	Date
FA R&Q Leader and members of the FA R&Q Team - Kick off meeting	14 August 2023
TLS Leader	21 August 2023
FA People & Quality Leader	24 August 2023
TPP Chair	24 August 2023
TPP Chair, TPP Chair for Private and TPP Secretariat	24 August 2023
TPP Chair for Private	24 August 2023
Private Leader and Private Leadership Team	7 September 2023
Private Risk Management Partner	7 September 2023
FA R&Q Legal Director	7 September 2023
FA Leader	14 September 2023
Global Tax Team Leader, Global Tax Team Risk Management Partner	14 September 2023
R&Q Team Members - System & controls demonstration/walkthrough	14 September 2023
FA People & Quality Leader	21 September 2023
Tax Controversy Team Leader	21 September 2023
Tax Policy Panel Chair	21 September 2023
TLS Leader	28 September 2023
PwC Chief Risk & Ethics Leader	28 September 2023
TLS Brand & Markets Leader	17 October 2023
Tax Business Risk Partner	17 October 2023
FA R&Q Team Members	17 October 2023
TLS Leader, FA R&Q Leader and FA R&Q Team members	17 October 2023
Chief Risk & Ethics Leader and Head of Compliance	9 November 2023
TLS Leader, FA R&Q Leader and FA R&Q Team members	14 November 2023
Interviews with External Parties	
CEO, Tax Practitioner's Board	5 September 2023
Deputy Commissioner - Public Groups, Australian Taxation Office	19 September 2023
Deputy Commissioner - Private Wealth, Australian Taxation Office	28 September 2023