

Panic at PwC: How a tax scandal played out behind closed doors

In the space of 10 days, an almost daily drumbeat of bad news has reduced the firm and its reputation to a level its partners could have barely imagined at the start of the month.

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At one point during the emergency partner meeting held by PwC on May 5, a participant asked the firm's leadership team the obvious question: was the wider partnership being lied to about the seriousness and the extent of the tax leaks scandal. No, was the response.

That was the same Friday afternoon meeting where the firm's former chief executive, Tom Seymour, dropped the bombshell revelation that he was named in a cache of internal emails made public three days earlier [<https://www.afr.com/companies/financial-services/for-your-eyes-only-how-pwc-leaks-helped-global-clients-dodge-tax-20230501-p5d4rf>].



Former PwC partner Peter Collins, left, and former CEO Tom Seymour at the Senate inquiry into corporate tax avoidance in 2015.

Those heavily redacted emails detailed how dozens of PwC operatives used confidential updates on government tax plans to drum up new clients.

Seymour told partners during the emergency meeting that six to eight PwC partners had shared the leaked Treasury information, while another 30 to 40 partners received the emails but were not aware that the information being used was confidential.

But he was adamant that, although he had been on the emails, and was the firm's head of tax at the time, he didn't know that the information was secret [<https://www.afr.com/link/follow-20180101-p5d5vx>].

Partners were bewildered, confused and angry about a scandal that Seymour had earlier assured the partners and the public was related to an isolated incident in 2014.

Not only was Seymour now admitting he had known all along about the matter – if not the confidentiality breach – because he was part of the original emails, but that dozens of partners were on the emails and many were still working at the firm.

“There's just disbelief by the partners. They've lost all trust. The

anger is aimed at Tom,” one former PwC partner told *AFR Weekend*.

A current partner says they couldn’t reconcile how Seymour could say he was on emails related to the leaks but was unaware how the information being exploited had been obtained.

It’s little wonder partners are upset. In the space of 10 days, an almost daily drumbeat of bad news has reduced the firm and its reputation to a level they could barely have imagined at the start of the month.

The story has not only gone global – the firm’s top leadership has now intervened in the scandal – [<https://www.afr.com/link/follow-20180101-p5d812>] *AFR Weekend* understands that global chairman Bob Moritz has personally intervened [<https://www.afr.com/link/follow-20180101-p5d812>]. Clients are also questioning PwC’s commitment to the truth. And members of the Labor government are calling for more heads to roll, or else.

For the PwC partners, and those from its competitors watching this slow-motion train crash, it’s the government where the rubber really hits the road. For both PwC and the government, what happens next could affect decisions worth hundreds of millions of dollars a year.

Can the firm do enough to ward off costly punishment? Is the government ready or able to hold PwC to account in the way that hurts most?

Calling for a clean-out

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Senator Deborah O'Neill wants every partner involved in the tax leaks to leave the firm. **James Brickwood**

Deborah O'Neill, the Labor senator who helped expose the scandal, has called for a clean-out of all partners and staff “actively or passively” involved [<https://www.afr.com/link/follow-20180101-p5d6di>]. She says until this happens, the firm cannot be trusted by the government or corporate clients to keep confidential material secret.

This week began with Seymour stepping down as CEO [<https://www.afr.com/link/follow-20180101-p5d6rf>]. At the same time, PwC was also forced to abandon its annual sponsorship of the federal budget dinner, leading to its partners effectively ghosting the entire event [<https://www.afr.com/link/follow-20180101-p5d7fc>].

And the hits just kept coming. Two more partners stepped down from the firm’s leadership team [<https://www.afr.com/link/follow-20180101-p5d7gj>] (they remain at PwC); the country’s main accounting professional body detailed how it had been secretly running an

professional body detailed how it had been secretly running an investigation into the firm's conduct

[<https://www.afr.com/companies/professional-services/pwc-tax-leaks-scandal-unacceptable-unethical-ca-anz-leader-20230510-p5d7ci>] since January;

Treasury said it was considering the prospect of criminal charges over the leaks; and the Greens called for the whole matter to be investigated by the new National Anti-Corruption Commission when it starts operating in July.

The scandal is nothing less than the most serious crisis PwC, which booked \$2.8 billion in revenue last financial year, has ever faced.

The firm's acting leader, Kristin Stubbins, has two key questions to answer. How can she allow any of the tax partners in receipt of the emails to remain partners at the firm? And how can the firm credibly run a so-called independent review of its own operations?

On that first question, *AFR Weekend* has been told that Seymour has been in negotiations with the firm over the terms of his exit. That a team of global PwC leaders, including global general counsel Diana Weiss, flew into Sydney last weekend shows that Stubbins will have assistance, like it or not, in resolving the fate of the tax partners named in the emails.

Stubbins has already made some moves. Partner Rob Silverwood is the new leader of the firm's financial advisory business, while Tony O'Malley has been appointed to the new role of chief risk and ethics leader. Another partner, Nicole Salimbeni, will lead the response plan for establishing better governance and structures at the firm.

"We deeply regret that we have failed the high standards we set for ourselves as an organisation," a PwC spokesman told *AFR Weekend*. "We now need to re-earn trust, which is why we have taken appropriate action, including the announcement that we will establish an independent review in relation to our governance, accountability and culture."



Kristin Stubbins, PwC's managing partner of assurance, is the firm's new CEO.

The crisis kicked off in January when *The Australian Financial Review* revealed that the Tax Practitioners Board, which regulates the country's tax agents, had terminated the registration of former PwC tax partner Peter Collins

[<https://www.afr.com/companies/financial-services/pwc-partner-leaked-government-tax-plans-to-clients-20230120-p5ceaz>] for sharing confidential information about the government's tax plans with other partners and staff at PwC, and ordered the firm to run additional training about managing conflicts of interest.

On May 2, the Senate published a cache of internal PwC emails that showed exchanges between at least 53 redacted email addresses, discussing a marketing project to target US tech companies and offering a "work plan" to deal with new tax laws for which Mr Collins was providing advice to Treasury.

The next day, Seymour assured partners that the matter was under control [http://click.email.fairfaxmedia.com.au/?

qs=77fcb922a4b97971c891c6d9a12dc32d5ef61b226173bbef33050905638bc1566394276765dabd169aac34ee0d23890cef4b5574462f580a].

“Those found to be directly involved in the breach of confidentiality arrangements in this matter have left the firm,” he told the partnership.

In an email to partners alerting them to the emergency partners’ meeting on May 5, PwC Australia chairman Tracey Kennair tried to be reassuring: “It is now that our spirit of partnership and collective support for each other is paramount.”

That spirit of partnership all but disappeared as Seymour made his bombshell revelations during that May 5 partners’ meeting.

“The real sadness is there’s a lot of really good people, a lot of really ethical people” unconnected with the scandal at PwC who are caught in the backwash, the former partner told *AFR Weekend*.

Those really hurting from this scandal are from the firm’s public sector consulting business – despite the issue emanating from the tax division.

One PwC operative who works in Canberra says the office is in a panic. This week, two people announced they were quitting, and rival consulting firms have been hitting the phones trying to entice others in the office to leave.

“Government partners as a whole understand the expectations and behaviours expected [in the public service] as opposed to more commercial partners,” a second former PwC partner says.

“They feel they have been tarnished with the breaches. It’s one of the downsides to working in a large organisation. The problem is, their actions impacted partners in Canberra.”

While PwC ponders further steps, the government is also facing its own difficult decisions over how it responds. A growing group of politicians, experts and lobby groups are calling for PwC to be banned from government work. That would be a big blow

PwC to be banned from government work. That would be a big blow, given PwC has secured \$537 million in federal government contracts during the past two years.

The idea is supported by Greens Senator Barbara Pocock, former senior bureaucrat Andrew Podger [<https://www.afr.com/link/follow-20180101-p5d6di>], the left-leaning Australia Institute, [<https://www.afr.com/link/follow-20180101-p5d6vm>] and the right-leaning Institute of Public Affairs [<https://www.afr.com/link/follow-20180101-p5d52e>].



Senator Barbara Pocock wants PwC banned from winning any more government work. **Alex Ellinghausen**

But so far, neither Treasurer Jim Chalmers nor Finance Minister Katy Gallagher have given any indication that this is the direction the government will move in. A concern has also been raised about how any ban would actually work – and if it would only end up exposing the government to a legal challenge by the firm.

Treasury has a history of minimising concerns over PwC's conflicts of interest – a combination of nonchalance affected by senior officials and wariness of the firm's political influence and power.

But *AFR Weekend* understands a wariness might be taking hold across the public service to employ PwC's services, effectively a "shadow ban" given the publicity the scandal has generated

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“If you were a decision-maker in a Commonwealth department now and you signed a contract with PwC, you might have to explain that

decision to Senate Estimates,” says one former PwC partner, who held senior positions in the public sector. “If you have another firm that can provide a similar service for a similar price, why would you [sign with PwC]?”

Other experts agreed it was likely that government delegates would, at the very least, “go slow” on signing PwC to contract extensions or new contracts. Delays in the way contracts are reported in the federal AusTender tracking database means it is not yet clear if any of this is happening.

The other former partner told *AFR Weekend* that a current PwC operative had already been told informally about the ban. “I know the government hasn’t said anything, but [the PwC person] was told that existing contracts won’t be renewed or extended. And they are already being asked not to participate in [new] opportunities.”

The leaks scandal could also lead to a more general slowdown for PwC’s big four consulting rivals Deloitte, EY and KPMG. That’s because the four firms are often seen “as a group” in Canberra.

It’s all an incentive for government agencies and departments to try out the in-house consulting service that will be established over the next two years instead of going to an external consulting firm. The service received initial funding of \$10.9 million in this week’s federal budget [<https://www.afr.com/politics/federal/number-of-public-servants-to-soar-to-record-high-20230508-p5d6qj>].

“It’s going to have some overall impact,” the second ex-partner says. “How do you prove your [firm] is different. I think it is a moment in time where everyone is going to have to work to rebuild trust.”

Canberra mission

But the firm’s partners are resilient if nothing else. The morning after the federal budget, when the firm’s leaders effectively hid from the public, a group of senior leaders was spotted at Sydney airport.

The group included Liza Maimone, PwC's chief operating officer; Sean Gregory, the firm's now former chief strategy, risk and reputation officer; and Peter Konidaris, the firm's national leader for government, health and infrastructure. They were preparing to fly to Canberra.

Where else would they be going?



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