

26 March 2024

Dr. Sean Turner,  
Committee Secretary,  
Parliamentary Joint Committee on Corporations and Financial Services

Dear Dr. Turner,

**Re: Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry – Answers to Questions on Notice posed during the public hearing on 5 March 2024**

We refer to the questions on notice posed during the public hearing on 5 March 2024 and provide our answers below.

Unless otherwise specified, the information provided in this submission pertains to the Australian offices of McKinsey Pacific Rim Inc. ("**McKinsey Australia**") only. We interpret any reference to "McKinsey" in the questions on notice as referring to McKinsey Australia.

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**1. How does the firm's risk management framework (CITIO) operate in practice, with particular reference to cross-border information sharing in connection with decision making on new engagements?**

All potential engagements must undergo a risk assessment process before the engagement can be confirmed and work can commence. The McKinsey & Company Client Service Policy (which is applicable in Australia) requires partners to systematically assess client engagements across five interrelated dimensions: Country, Institution, Topic, Individual, and Operational considerations (the "**CITIO**" framework). The CITIO framework outlines specific types of work the firm will not do, and types of work that require risk reviews and/or approvals. This framework is applied to every potential engagement in every part of the world, including Australia. The CITIO framework ensures that we take a consistent and comprehensive approach to evaluating the clients whom we serve, the topics on which we serve, and the effects of our work.

We routinely limit or decline potential engagements based on our CITIO evaluation of potential clients and engagements.

Every potential engagement that raises risk flags during the CITIO assessment must be the subject of review by risk and legal professionals. Where that risk review deems necessary, or where an engagement raises certain pre-defined risk flags, the matter is referred to our Client Service Risk Committee ("**CSRC**"). The CSRC is a global committee of senior leaders, supported by risk, legal, and communications professionals, which provides advice and decisions on the most complex risks that we face in our client service. These leaders provide arms-length supervision of our decisions in relation to client service. Where the CSRC determines that the work cannot be conducted in a manner consistent with our values and policies, McKinsey Australia declines the engagement.

Global CSRC members from outside Australia are at times involved in decision making as to the work that McKinsey Australia takes on. Review by risk professionals is required in

relation to all public sector work, and where CSRC review is required, global colleagues may be leveraged for particular expertise. We treat all tender information as 'need to know' and take necessary steps where the client has requested specific handling. Public tender documents do not contain classified information; if an agency discloses classified or sensitive information to respondents, it is our experience that this information is clearly identified and that we are required to sign a non-disclosure agreement to receive that information. We comply with requirements of the tenders to which we are invited to respond, including any requirement that tender documents must be viewed only by Australian nationals or colleagues holding a security clearance. If necessary, we have the option of assembling a panel of purely Australian CSRC members, supported by Australian risk professionals who hold relevant security clearances.

Furthermore, as explained by Mr. Bruce during the hearing on 5 March 2024, once an engagement is underway, we perform all work involving security classified information on client systems and data is not transferred to our systems.

**2. What is the nature of the work that is being performed by McKinsey Australia employees who are not Australian citizens?**

Our firm prohibits any form of discrimination towards any individual based on, among others, citizenship. As such, the nature of the work performed by our non-citizen colleagues is generally of the same nature as the work performed by our Australian citizen colleagues, i.e.: (a) bringing our global expertise, knowledge, solutions and insights; (b) helping our clients to accelerate change and transformation; and (c) building enduring capabilities in our clients. From time to time, our clients in the public sector may require that McKinsey Australia colleagues staffed to their engagements are Australian citizens and/or have security clearances granted by the Australian Government Security Vetting Agency ("AGSVA"). For these engagements, we agree and only staff colleagues who hold a security clearance or are Australian citizens as per the client requirements.

**3. Do McKinsey Australia employees work on engagements in other countries? If yes, which countries? Are these employees working on public sector engagements in other countries?**

McKinsey & Company is a global firm and we pride ourselves on bringing our global expertise, knowledge, solutions and insights to our clients. As such, McKinsey Australia colleagues could potentially work on McKinsey & Company global engagements for clients outside Australia, including public sector engagements. As explained in our answer to Question 1 above, we apply our CITIO framework to every potential engagement. This framework precludes us, for example, from doing work for political campaigns or political parties, for certain governments (e.g., those subject to sanction regimes) and for defence, intelligence, justice, and police institutions in countries with an overall score of six or below in the EIU Democracy Index, apart from exceptional approvals for international aid and humanitarian support.

**4. Core management consulting services is a broad term. Clearly stated, what work does McKinsey Australia do in Australia and the region?**

McKinsey & Company is one of the world's leading providers of business and organisational consulting services, serving the largest and most significant Australian and multinational companies and institutions as well as foundations and not-for-profit entities active in the communities in which we live and work.

Put simply, we help our clients address their most challenging topics by: firstly, bringing our global expertise, knowledge, solutions and insights; secondly, helping our clients to

accelerate change and transformation; and, thirdly, building enduring capabilities in our clients. We do this by providing a host of services including management consulting, digital services, strategy and corporate finance, operations, growth, marketing and sales, technology, risk and resilience, logistics and supply chain, restructuring, cost management, large-scale reorganisation, and transformation.

McKinsey Australia provides these services across various sectors in Australia and the region, along with leadership development, coaching, and integrating human and organisational factors necessary for successful strategy implementation. Our clients are in sectors including public and social sector, health, energy and minerals, education, financial services, retail, travel, logistics and infrastructure.

McKinsey Australia does not provide taxation, legal, accounting, or audit services to our clients.

**5. You confirmed that all McKinsey staff working for the Department of Defence maintain an active and appropriate security clearance. Could you find out if any of those security clearances are shared between people, even in a casual way?**

Almost all Department of Defence (DoD) engagements require that our employees working on a DoD engagement have an active and appropriate security clearance. Security clearances are sponsored by McKinsey Australia, but are granted by AGSVA specifically and personally to individuals. As such, we understand that security clearances are not transferrable and it is not possible for McKinsey Australia colleagues to share a clearance. As part of the process for receiving security clearance, the myClearance portal requires individuals to complete a Security Clearance Informed Consent and Official Secrecy Acknowledgement.

**6. What's your practice in recruiting out of the public sector and specifically in relation to Defence? How many people have moved between McKinsey Australia and the APS, in particular Defence (i.e., both into and out of McKinsey)?**

To the best of our knowledge, as of 26 March 2024, we have 10 colleagues who joined McKinsey Australia directly from the APS or Australian Government roles. Some of these colleagues are employed in internal firm service (i.e., non-consulting) roles and would therefore not be staffed to provide consulting services to their former employer.

Our practice is to require a cooling off period of at least one year from the time of leaving APS employment. In addition, we apply our standard policy on conflict of interest, which prohibits colleagues who have acquired confidential information about a client from serving another client if to do so could materially prejudice the interests of the first client. We have checked our records and confirmed that none of the colleagues who joined McKinsey Australia from the APS or Australian Government roles in the past five years served on any engagements for their former department or agency employer within the first 12 months of their employment.

McKinsey Australia does not second staff into the public sector or provide labour hire services. If colleagues wish to take up roles with government organisations, they must first resign from McKinsey Australia. We do not systematically track the employment status of colleagues who have left McKinsey Australia. As such, we do not maintain data on the number of colleagues who have joined the APS after previously being employed by McKinsey Australia.

All our current and former colleagues are bound, and remain bound post-employment, by ongoing confidentiality obligations.

**7. How much carer leave is taken, with particular reference to parental leave taken by men across all roles, in particular senior men?**

The following table sets out the percentage of all colleagues who took extended parental leave in 2023, broken down by the impact bands provided in our Answer to Question on Notice submitted to the Senate Finance and Public Administration Committee Inquiry into the Management and Assurance of Integrity by Consulting Services on 8 September 2023:

<b>Impact Band</b>	<b>Role Titles (illustrative)</b>	<b>% of Male Colleagues who Took Extended Parental Leave in 2023</b>	<b>% of Female Colleagues who Took Extended Parental Leave in 2023</b>
Indigo (most senior)	Partner, Firm Leader	12%	15%
Blue	Associate Partner, Senior Expert	23%	19%
Green	Engagement Manager, Manager, Expert	18%	19%
Yellow	Associate, Specialist, Operations Manager	6%	10%
Orange	(Sr) Analyst/Fellow, Coordinator, Team Leader	0%	5%

**8. Can you provide any more detail about the following incidents: (a) the report of alleged sexual harassment (referred to on page 9 of McKinsey Australia's Answers to Questions on Notice submitted on 7 August 2023); and (b) the report of alleged discrimination by an employee dismissed for cause that led to a settlement (referred to on page 6 of McKinsey Australia's Answers to Questions on Notice submitted on 7 August 2023)?**

We refer to the information on these incidents provided on pages 6 and 9 of McKinsey Australia's Answers to Questions on Notice submitted to the Senate Finance and Public Administration Committee Inquiry into the Management and Assurance of Integrity by Consulting Services submitted on 7 August 2023.

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Thank you for the opportunity to continue to assist the Committee.

Yours faithfully,

McKinsey Pacific Rim Inc.