



Finance's review of the ethical soundness of Scyne Advisory

Introduction

In January 2023, the Tax Practitioners Board (TPB) announced that PricewaterhouseCoopers Australia's (PwC) former head of international tax, Mr Peter Collins has been deregistered as a tax agent for integrity breaches. A TPB investigation identified that Mr Collins had made unauthorised disclosures of confidential information to colleagues at PwC.

On 2 May 2023, the TPB tabled emails in Parliament which highlighted the extent of the confidentiality breaches and the number of PwC staff directly and indirectly involved in the matter.

In response to widespread concern regarding the actions of PwC staff arising from improper usage of confidential Commonwealth tax information, PwC notified the Commonwealth that it was divesting its State and Federal government business to a third party, Allegro Funds Pty Ltd (Allegro) to create the new entity, Scyne Advisory Pty Ltd (Scyne).

While the PwC breach of confidentiality did not occur as part of a procurement process, it raised a number of issues that have impacted on Commonwealth contracts and procurement. As such, the Department of Finance (Finance) has taken lead responsibility for managing the Commonwealth's response to the establishment of Scyne and the ethical issues arising from PwC's performance.

Examination of Scyne Advisory

Finance undertook a broad ranging examination of the new entity, Scyne, with reference to its governance structures and integrity frameworks, to form a whole of Government view on the ethical soundness of Scyne. Through this review, Finance has considered:

- assurances from legal firms, PwC Australia, and Scyne on staff to be transferred to Scyne;
- the findings of the review undertaken by Dr Ziggy Switkowski AO regarding PwC's governance, culture and accountability, and Scyne's response to the review;

- the policies and frameworks that Scyne is implementing to strengthen ethics, governance and accountability;
- any identified, real or potential conflicts of interest for those staff (including senior leadership) moving from PwC to Scyne;
- the outcome and methodology of the probity review of Scyne staff, as undertaken by the Chair of Scyne's Probity, Conflicts and Ethics Committee and former Federal Court of Australia Judge, the Hon Andrew Greenwood; and
- advice from Dr Simon Longstaff AO from The Ethics Centre, including advice on any potential or perceived gaps between what is proposed by Scyne and what would be considered to be "better practice".

The scope of Finance's assessment has been limited to the ethical soundness of Scyne. We note that Allegro is an Australian wholly owned private equity fund manager which has a number of investment vehicles, some of which have passive multi-country foreign investors. Treasury is currently assessing the Foreign Investment application. Finance has also not formed a view on Scyne's business model, the division of service offerings between PwC and Scyne, or the transitional arrangements. We acknowledge that these are matters for PwC and Scyne and we have not made an assessment on the terms of the sale.

Assurances and expert advice

Attestations have been provided by the external law firms King & Wood Mallesons (KWM) and Allens that they had not identified any staff to be employed at Scyne, who had been involved in the TPB matter. These law firms were engaged by PwC to investigate staff involvement in the TPB matter, for PwC Australia and PwC International. KWM's and Allens' investigations included evaluation of prior reviews, additional investigation and recommendations for improvements.

Finance also notes that PwC provided assurances that no individuals to be employed at Scyne had been involved in the wrongdoing that was the subject of findings by the TPB, or involved in the subsequent handling of the matter, subject to four exceptions. The probity review undertaken by Mr Greenwood investigated the four identified individuals, and considered all other individuals to be employed by Scyne, the majority of whom are to be transferred from PwC to Scyne.

Mr Greenwood investigated the four identified individuals to determine if their involvement was material. Those individuals had considered aspects of the TPB matter in their roles on PwC's executive and governance boards. It was determined that two of the four did not meet the expected ethical standing and would not transfer to Scyne; and the involvement of the other two was not material.

In relation to all other individuals to be employed by Scyne, Mr Greenwood's review sought to identify and consider those who had been subject to findings of deficient ethical behaviour, and whether it was appropriate for them to be employed by Scyne.

Overall, Mr Greenwood has advised that following his investigations he is satisfied that none of the partners or professional staff transitioning to Scyne were involved in the TPB matter. Mr Greenwood has also advised that all individuals to be employed by Scyne are fit to engage with the Commonwealth on probity grounds. Having considered the methodology, breadth and outcomes of Mr Greenwood's review, Finance accepts Mr Greenwood's advice and the assurances of KWM and Allens.

Governance – Role of the Board and sub-committees

Switkowski findings

Dr Switkowski found that the effectiveness of governance and oversight in PwC was inhibited by the composition of the Board of Partners, which lacked sufficient independence from the CEO and senior leaders of the firm. He considered that the Board's responsibilities were not clearly articulated and lacked the reporting rigour and transparency that would enable effective discussion and more informed decision making at meetings.

He also found that the Board did not adequately review its performance or effectiveness. Further, there was no robust process to ensure an appropriate cross section of skills and expertise amongst the Board of Partners.

Dr Switkowski considered that Committees of the Board of Partners could also be improved through more formal coordination and escalation of information, insights and recommendations.

Switkowski recommendations

Recommendations 1-6 of the Switkowski Review relate to the development of clear roles and responsibilities for the Board to ensure appropriate oversight, diversity in the composition of the Board to ensure an appropriate matrix of skills and experiences, and clear accountability for Board members and decisions. A restructure of the Board was recommended to ensure adequate independence.

Scyne initiatives

Scyne has advised Finance that it has been established as a proprietary company under the *Corporations Act 2001 (Cth)* and regulated by the Australian Securities and Investments Corporation (ASIC). The Board of Directors is responsible for appointing (and removing) the CEO and will include an independent non-executive chair, non-executive directors and dedicated sub-committees for specific risk and ethical matters. Scyne has also advised that it has introduced a good practice diversity policy, and will undertake due diligence of all Directors and officers, and annual performance evaluations of the Board and officers.

Scyne advises that its governance structure will include the following:

- A Board structure with an independent non-executive chair, two independent non-executive directors, two directors from Allegro Funds and one director from Scyne.
- A Charter with clearly defined roles and responsibilities of the Board, including for governance and adoption of the ASX corporate governance standards.
- A Board with the role of appointing and removing the CEO.
- A Board sub-committee structure including a dedicated:
 - Probity, Conflict and Ethics Committee,
 - People and Culture Committee,
 - Audit and Risk Committee,
 - Cyber Security and Technology Committee.

The shareholders in Scyne are currently establishing the Board, with a view to selecting Board members with diverse experience and skills, including corporate governance experience. The composition of Scyne's Board includes non-executive directors and representation from Allegro and Scyne, which in Scyne's view will assist to alleviate the power imbalance that existed within the PwC structure. As outlined in the Switkowski Review, there was an "uncomfortable tension including the psychological safety of all board members to challenge the CEO."

Scyne advises that the Board and sub-committee charters have been developed by bringing together best practice elements from the Australian Institute of Company Directors (AICD) and public sector guidance. Scyne consulted with a range of stakeholders and experts on its governance and development of a Code of Conduct to ensure the organisation operates in line with its purpose and vision.

Scyne advises that the Board will be responsible for the overall strategy, performance and governance of Scyne, in accordance with Scyne's purpose and objectives including maintaining high standards of ethical, lawful, and transparent behaviour. The Board's purpose includes the following responsibilities relevant to Finance's examination:

- Overseeing the establishment and separation of Scyne, including actively monitoring progress and managing enterprise risks, and embedding a sound risk culture.
- Overseeing and maintaining accountability for the management of conflicts of interest, supported by the Probity, Conflict and Ethics Sub-Committee.
- Planning for Board and senior executive succession and remuneration.
- Approving the performance incentive scheme and management equity scheme.
- Monitoring Scyne's relationship with key regulators and stakeholders to ensure compliance with Scyne's regulatory obligations.
- Reviewing the selection and appointment of the external auditor.

Scyne has committed to conducting an annual assessment of the performance of the Board alongside a three yearly review with an external facilitator as recommended by the Switkowski Review. Additionally, Scyne will review planning and succession matters of the Board annually.

Sub-committees

Scyne has advised that the Board has four sub-committees to cover critical elements of their governance such as oversight, culture, information confidentiality, conflict of interest and ethics. These are described below.

Probity, Conflicts and Ethics Committee – responsible for overseeing probity, conflicts, integrity and ethics concerns. The Committee's primary purpose is to embed within Scyne, and all persons providing services on behalf of Scyne, a 'culture of compliance' with the ethical and cultural values set out in:

- the Code of Conduct
- the Speak Up Policy; and
- all other Standards adopted by Scyne concerning matters of probity, conflicts, ethics and integrity.

People and Culture Committee – responsible for overseeing, monitoring, and reviewing the operation of Scyne's strategies, frameworks, and programs related to people and culture, and providing advice and assistance to the Board in relation to human resource governance, performance and remuneration, diversity and inclusion, capability and talent development, culture and experience, conduct, nominations and appointments, and safety and wellbeing of the Directors, CEO, and staff. This includes promoting ethical behaviours by all stakeholders, driving the implementation of agreed organisational values, and motivating staff and the CEO to achieve long-term growth and success for Scyne.

Audit and Risk Committee – responsible for providing independent and objective advice on Scyne’s enterprise risk management and internal controls, regulatory compliance, internal audit, and external audit responsibilities, as well as financial reporting. The Committee’s role is to assist the Board to exercise due care, diligence and skill in discharging its governance and oversight responsibilities, and to make recommendations to the Board for resolution. The Audit and Risk Committee is responsible to the Board for corporate reporting and disclosures. The entity is required to prepare audited financial statements under the Corporations Act.

Cyber Security and Technology Committee – responsible for assisting the Board and management to establish, implement and oversee fit for purpose ICT and cyber functions and overseeing the processes related to the security, confidentiality and privacy of information. This includes all client, personal and confidential information held or created by Scyne.

While not a formal sub-committee, the Board also has the **Strategic Advisory Committee** which exists to provide advice to the Board and CEO on specific matters within their areas of expertise.

Finance’s consideration

There are many points of difference in Scyne’s governance structure that distinguish it from PwC. The structure operated by PwC contributed to or at least allowed the conduct surrounding the TPB matter to arise. These relevant differences include:

- Scyne’s Board structure includes non-executive directors and an independent non-executive chair. The Board has responsibility for electing and, where required, removing the CEO, breaking the ‘circular’ governance model as identified by Dr Switkowski.
- The Board and its sub-committees, all of which adopt ASX governance standards have clearly defined roles as detailed in each of their charters. Importantly, a Probity, Conflicts and Ethics Committee has been established which has a specific responsibility for instilling a positive culture of compliance with respect to Scyne’s ethical conduct frameworks.
- A single purpose of Scyne, to provide consulting services to public sector entities, should assist to reduce disjointed and inconsistent governance processes and create an organisation wide ‘culture of compliance’. The Switkowski review identified a key shortcoming of PwC that their ‘decentralised business model [was] without sufficient visibility of the enterprise view’.

Governance – Senior Leadership Oversight

Switkowski findings

Dr Switkowski found that the CEO had significant power and influence in decision making. Dr Switkowski noted that this became an issue where the composition of the Board in recent years allowed the strategic growth agenda to be prioritised without an appropriately balanced consideration for risk and other organisational matters.

He also identified issues with the Executive Board, including its underrepresentation of enabling functions, such as risk management and legal. Further, there was insufficient clarity on the roles and responsibilities of the Executive Board, particularly in relation to risk. Dr Switkowski assessed that the lack of delegations and coordination with enterprise-wide forums affected the Executive Board's capacity to effectively manage risk.

The Switkowski Review found that the Executive Board meeting practices and decision-making were insufficiently formalised and suggested that this would have impacted the Board's ability to effectively discharge its leadership and firmwide management responsibilities.

Switkowski recommendations

Recommendations 7 and 8 of the Switkowski Review relate to the role of senior leadership oversight and the requirement for the Board to implement rigorous practices. It also recommended more clearly defined roles and responsibilities of the governance committees, more formal, structured meeting protocols and decision-making rigour for the CEO and the Board to ensure more effective management of firm wide matters.

Scyne initiatives

Scyne advised it will establish a governance and decision-making model wherein the culture is set by the directors and embedded throughout the company. The directors, who are bound by the directors' duties in the Corporations Act, will adopt a zero-tolerance approach to breaches of the Code of Conduct and the ethical operating standards.

Partners will be employees in Scyne's corporate model and will receive a fixed base salary. Partners will also receive a discretionary variable bonus at the end of the financial year which will be linked to a set of key performance indicators outlined in a balanced scorecard for each partner. The scorecards will include financial and non-financial targets and will relate to the performance of the business as a whole as well as the performance of the individual partner.

Scyne advise that there is presently an interim Managing Partner and a Leadership Team. Scyne has indicated that all Board and sub-committee meetings will be properly documented

as records of the governance of the company. This is reflected in the charters of the Board and sub-committees.

The Probity, Conflicts and Ethics Committee and People and Culture Committee will endeavour to set a tone from the top, and an incentive system for all staff that builds a culture of open disclosure, transparency and fact-based decision-making. This will include full and frank disclosure of conflicts of interest and misconduct to clients.

Finance's consideration

Some of the issues related to senior leadership as identified by the Switkowski Review are linked to the three siloed work groups of PwC. We consider that the single line of function of Scyne should, to some extent, assist with resolving some of these issues. Scyne has also sought to define the roles and responsibilities of the Board and the sub-committees in their respective charters. Further, with the governance structures of the Board and sub-committees adopting ASX standards this should also assist to create a robust corporate governance framework and provide accountability and control systems that will appropriately manage the risks involved. Additionally, given Scyne will have a corporate Board, the directors of Scyne will be bound by the directors' duties in the Corporations Act and will have both accountability and personal liability.

Governance – Risk Governance and Compliance Frameworks

Switkowski findings

Dr Switkowski found that there was a substantial deficiency in dealing with enterprise-wide risk. The risk and policy frameworks were overcomplicated with the relationships between different policies and obligations unclear. There was also no enterprise compliance function and the responsibility for risk management was decentralised to the three work groups of PwC. However, without a sufficiently mature enterprise risk function, this led to sub-optimal risk management. He found that this extended to the management of conflict of interest risks for which there was no overarching framework providing clear instructions to partners and staff on how to identify and manage the actual, potential and perceived conflicts of interest.

Switkowski recommendations

Recommendations 9-13 of the Switkowski Review relate to governance frameworks and the requirement of those frameworks to deliver an "enterprise risk management capability". The recommendations noted that a substantial improvement in enterprise risk management capability was required and covered factors such as embedding clearer accountabilities for

risk across the firm, fixing gaps in compliance risk management, improving the functionality of the executive level risk subcommittee and other risk related forums in addition to strengthening a firm wide approach to conflicts of interest.

Scyne initiatives

Scyne considered several recommendations pertaining to this section of the Switkowski Review as not applicable to Scyne. This was because Scyne will have one core function (as opposed to the three work groups of PwC) and a different governance structure to PwC.

Scyne considers it will not operate as a "decentralised business model" and it is focused on building an integrated enterprise-wide business across locations and capabilities. Scyne says that its whole of organisation governance structure is focused on discharging its core purpose, capabilities and locations, within its values-based ethical and integrity principles and operating protocols.

Scyne has utilised lessons learnt from "PwC's flawed structure" to design an approach which aims to ensure that the issues of PwC are not replicated in Scyne. The governance framework, including all Scyne's Board sub-committees, have detailed charters in place defining their terms of reference to avoid internal confusion around the respective roles of the governance structures.

Scyne described itself as having a mature compliance approach. However, Scyne also advises that it is still developing an enterprise compliance framework which it expects will include regular compliance monitoring.

Scyne agreed with Dr Switkowski's recommendation on a firm-wide approach to conflicts of interest, coupled with training to drive capability and behavioural change. Scyne proposes to conduct extensive training programs on conflicts, the Code of Conduct and the Speak Up Policy to support cultural change. Scyne has noted that any breaches of these policies will be reported to the Probity, Conflicts and Ethics Committee.

Scyne also noted that its Audit and Risk Committee would determine a clear governance structure for risk and assist with creating a contemporaneous and consistent enterprise-wide approach to risk.

Finance's consideration

The risk governance and compliance recommendations in the Switkowski Review predominantly arise from issues associated with a "decentralised business model". The governance structure and purpose of Scyne differs from that of PwC, as Scyne's purpose is to provide services to public entities, rather than being split across three work groups.

Dr Longstaff also agreed that there are clear distinctions between PwC Australia and Scyne and this reduces the likelihood of Scyne being susceptible to conduct like that identified at PwC. Dr Longstaff described some of these key differences as:

- a single line of business to provide services to the public sector;
- a Board overseeing a single, coherent governance structure;
- a CEO appointed by and reporting to the Board;
- detailed governance structures with a clear focus on probity;
- the use of a 'balanced scorecard' to evaluate performance on grounds that go beyond financial performance; and
- a remuneration framework that balances long-term and short-term objectives.

Governance – Issues Management

Switkowski findings

Dr Switkowski identified that there were unclear definitions and accountabilities, multiple channels for reporting and escalating conduct issues, and no robust practice for collating data sets from across PwC Australia. This prevented PwC from identifying issues at an organisational level and created challenges for risk management.

Similarly, it was identified that there was limited central oversight and unclear responsibilities for regulatory engagement across PwC.

Switkowski recommendations

Recommendations 14-16 of the Switkowski Review relate to the lack of consistency in the management of issues when they arise across the organisation. The recommendations seek to address how the lack of clarity in roles, escalation points and processes, as well as inconsistency in definitions or the complete lack of definition within the relevant policy documents, created complexity and contributed to an overall lack of clarity and an inconsistent approach to issues management.

Scyne initiatives

Scyne considers that its corporate structure; independent Chair, non-executive directors, and a CEO appointed by, and removed by, the Board will address the issues identified within the Switkowski Review. The single line of functioning intends to create a consistent approach to the conduct of risk, with corresponding accountabilities.

The responsibilities of the CEO and the management team would be clearly detailed in the operating procedures to enable consistent identification, escalation and monitoring of incidents and would be supported by the risk framework.

Scyne says that it will implement ASX standards of governance and will be regulated by ASIC. Scyne has also indicated it is committed to working with regulators as appropriate.

The Probity, Conflicts and Ethics Committee will have primary responsibility for overseeing the consequence management process and will receive information regarding potential breaches of the Code of Conduct or other misconduct, either raised through the Speak Up process, identified through internal reviews, or raised through other channels. This process seeks to ensure staff are held accountable, treated fairly and decision-making is transparent.

Finance's consideration

The Scyne Board and sub-committee charters clearly define the roles and responsibilities of the respective corporate and governance structures in Scyne, avoiding internal uncertainty. The charters include reference to ensuring that records and minutes pertaining to the meeting are maintained by the Secretariat, increasing transparency and accountability. The Speak Up Policy, Code of Conduct and the Consequence Management Policy outline clear expectations and processes for dealing with conduct issues. The Probity, Conflicts and Ethics Committee in addition to the People and Culture Committee will have remit to manage enterprise risk on conduct issues.

More broadly, the single purpose and governance structure focused on Scyne's core function should reduce the risk of different processes across the organisation.

The Probity, Conflicts and Ethics Committee also has a responsibility within their charter to ensure Scyne engages with regulators and deals with them in accordance with legislative requirements after receiving reports about any serious breaches of Scyne's policies.

Culture

Switkowski findings

The Switkowski Review identified that PwC's focus, as set by senior leadership, prioritised organisational and financial growth, above PwC's purpose or values. Further, issues arose from blind trust in senior leaders, a reluctance to have uncomfortable conversations, and a collegial culture that prioritised familiarity over capability. PwC's culture also did not encourage questioning of others and created an environment which lacked accountability in decision making. The Switkowski Review found there was a willingness to accept or tolerate poor behaviours of senior leaders who contributed to substantial revenue.

In addition, the emphasis on the autonomous operations of PwC's three work groups created silos and internal competition, creating inefficiencies in staffing projects and a lack of collaboration.

The Switkowski Review found that there was a tendency for PwC's 'good news' culture to overshadow opportunities for reflection and learning from mistakes. Senior management was described as 'speaking in riddles' when communicating issues that had arisen.

Switkowski recommendations

Recommendations 17-20 of the Switkowski Review described actions that could be undertaken to improve the culture of an organisation. The recommendations were aimed at developing an organisational culture focused on rebuilding trust and supporting a 'challenger culture' that was modelled by senior leadership. Further, recommendation 20 sought to reduce the relationship biases in senior roles by establishing protocols to ensure that appointments were based on a capability-based selection criteria, including values alignment, ethical conduct, and cognitive diversity.

Scyne initiatives

Scyne proposed a commitment to restoring trust internally and externally. Scyne's implementation plan intends to rebuild trust through a program of work and specific initiatives to embed purpose and values in day-to-day operations.

Scyne has developed a Code of Conduct and Speak-up Policy (further described below) and will look to strengthen these over time. The focus of these policies aligns with the intent of recommendation 18 of the Switkowski Review, that behaviours and mindset are required to build trust, including through:

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

Speak Up Policy (Policy)

Scyne has expressed its commitment to conducting business honestly, ethically, with integrity, and in accordance with standards of expected behaviours and has developed the Speak Up Policy as an important tool in upholding this commitment. The Policy outlines Scyne's processes for responding to Speak Up reports; and promotes a workplace environment in which everyone feels safe, supported and encouraged to Speak Up.

The Board has approved this Policy to operate in order to encourage people to speak up if they suspect or become aware of potential misconduct, help deter wrongdoing, in line with Scyne's risk management and governance framework, explain how to speak up and what protections a discloser will receive.

Scyne advises the People and Culture Committee will periodically receive a summary of reports made under this Policy. The Board will also be provided additional information about any material incidents raised.

It is important that disclosures are reported to the Board, so that there is appropriate oversight of potential financial and non-financial risks in the organisation. Scyne had advised Finance that a Board paper may include statistics on the number of disclosures, investigations commenced and substantiated disclosures, which are de-identified as required. It may also include metrics on the type of remedial action taken and the business areas and geographic locations most frequently the subject of disclosures. Investigation reports or investigations carrying an undue amount of risk may be reported to the Board outside of the usual updates. The Board at any time can ask about the state of Scyne's Speak Up program.

Code of Conduct (the Code)

Scyne's Code sets out expectations for conduct, culture and accountability. The Code applies equally to all staff, including its partners.

The Code draws on the public service Codes of Conduct, and examples from industry, including the post-Royal Commission banking industry.

Scyne intends to address any behaviour that falls below the standard and expectations set out in the Code through a Consequence Management Policy.

Scyne says that the Code and related values documents comply with all of the elements of the Commonwealth Procurement Rules.

The Code requires full and frank disclosure of any misconduct, including conflicts of interest. The Probity, Conflicts and Ethics Committee oversees the Code including receiving Speak Up reports. The Probity, Conflicts and Ethics Committee will receive information regarding any breaches of the Code and consider if further action should be taken to address particular issues or trends in the reports. The Probity, Conflicts and Ethics Committee will be responsible for full and frank disclosure to the public sector client and the panel managers of the client.

As part of the Code of Conduct, Scyne will create a 'Good decisions making guide' that Scyne individuals can use to consider some key questions including but not limited to:

- stakeholders and clients – who will it effect?
- integrity and trust – is this the right thing to do?
- long term – will my decision stand the test of time?

The Code of Conduct and Speak up Policy set out Scyne's cultural and ethical values and will be the subject of many training sessions. The Probity, Conflicts and Ethics Committee will also undertake education programs emphasising the need for a culture of compliance.

Conflicts of Interest

Scyne says it has developed an organisation wide framework for managing conflicts of interest. It includes established culture and accountability as set from the top of the organisation, detailed policies and controls, monitoring compliance and reporting, alongside reward and consequence management to align culture and behaviour. Scyne will identify and prioritise conflicts of interest and escalate accordingly for appropriate resolution. Managing conflicts of interest is also embedded in the Code of Conduct and remuneration structures.

The inclusion of independent, non-executive Directors on Scyne's Board is intended to promote a 'challenger culture' in line with Dr Switkowski's recommendation 19. The responsibilities of the Board, the CEO, the Senior Leadership team and the partners will be reinforced to embed a culture of challenging and questioning views to hold others to account.

Scyne advise its appointments are and will be merit based and incorporate a diversity of high-level skills and experience and avoid relationship biases. Specifically with respect to the CEO, this individual will be appointed and can be removed by the Board.

Finance's consideration

Scyne has introduced a number of initiatives focused on creating a culture of accountability and integrity. This includes the establishment of a Code of Conduct that draws on the APS Code of Conduct and sets expectations for ethical conduct, culture, accountability and the full and frank disclosure of any breaches. Additionally, a Consequence Management Policy will set out a process for addressing unethical behaviour to ensure organisation wide consistency. The Probity Conflicts and Ethics Committee is responsible for overseeing probity, conflicts, integrity and ethics concerns, further ensuring consistency in the application of policies and frameworks. The sub-committee's primary purpose is to embed within Scyne, and all persons providing services on behalf of Scyne, a 'culture of compliance' with the ethical and cultural values set out in the Code of Conduct, the Speak Up Policy as well as other relevant standards adopted by Scyne. Scyne maintain they are committed to ensuring compliance with their values and ethics via training, emphasising the importance of the core values, by embedding a culture of compliance, adopting a zero tolerance for breaches, and conducting unannounced audits of transactions.

Accountability, Remuneration and Consequence Management

Switkowski findings

The Switkowski Review found that partners' performance reviews were focused on short term financial results, individual targets, and were susceptible to human biases based on the tenure, seniority and status of the partner. Additionally, challenges in identifying ethical business conduct issues, and an inconsistent approach in the appetite to investigating conduct has impeded accountability.

The Switkowski Review also identified there was a cultural reluctance to discuss negative issues, including discussing and identifying staff who had not met behavioural standards. This limited the ability of staff to learn from previous issues, did not incentivise appropriate behaviour or promote accountability.

Switkowski recommendations

Recommendations 21-23 of the Switkowski Review relates to accountability, remuneration and consequence management. These recommendations identified the need for reward and remuneration frameworks to incentivise appropriate behaviour, including in the long term, and to discourage excessive risk taking and negative behaviours. Further, recommendation 23 sought to provide greater transparency of consequences in order to set clear expectations on conduct and demonstrate accountability in action.

Scyne initiatives

Scyne seeks to discourage conflicts of interest and breaches of the Code of Conduct by ensuring its remuneration model considers non-financial performance areas. Scyne has designed a remuneration model that aims to encourage partners and staff to be invested in the long-term growth and success of the business.

Partners

Scyne partners will be remunerated through the following:

- a base salary;
- a short term incentive comprising of a discretionary variable bonus at the end of the financial year; and
- a long-term incentive comprising of shares in Scyne.

Partners will receive a discretionary variable bonus at the end of the financial year outlined in a balanced scorecard. The elements of the balanced scorecards will include financial and non-financial targets and will relate to the performance of the business and of the individual partner. The balanced scorecards may include:

- individual values and behaviour performance – cultural footprint/organisational 360 scores; values awards; mandatory training completion; and compliance with ethical standards;
- individual client performance;
- team performance; and
- commercial outcomes.

Partners will also be required to adhere to minimum standards which address values alignment, ethical leadership, and no conflicts of interest. There will be an inflexible standard on breaches of the Code of Conduct and conflict of interest breaches whereby if these were to occur, the partner will forfeit their discretionary bonus in full, and be subject to any other disciplinary action required.

Partners will have the opportunity to hold shares in a manner which incentivises them to think about growing the business over the long term, and disincentivises any behaviour that will create short term value at long term harm.

Staff

With respect to non-partners, their remuneration is a subset of the abovementioned elements, receiving a base and a short-term incentive. Similar to partners, there will be an inflexible standard on breaches of the Code of Conduct and conflict of interest breaches which will result in a forfeiture of the discretionary bonus.

Scyne has a formal Consequence Management Policy to address any behaviour that falls below the standard expectations set out in the Code.

Scyne says it is committed to being transparent on the values and behaviour it expects from its staff. It says this is demonstrated through the probity review that has been undertaken by Mr Greenwood, as well as the Code of Conduct and Speak Up Policy that have been drafted and are further described earlier in this report.

Scyne will implement an annual Values Day, where staff will discuss and recommit to Scyne's values.

Finance's consideration

Finance considers that Scyne has implemented several initiatives that support increased accountability within Scyne including by designing a remuneration model for both staff and

partners that considers non-financial performance areas. The model links discretionary bonuses to the adherence of the Code of Conduct.

Transferring Scyne personnel have been subject to Mr Greenwood's probity review, and he has provided assurances as to the appropriateness of these individuals for employment at Scyne. Further, attestations from external law firms support the ethical soundness of the individuals transferring to Scyne from PwC.

All people joining Scyne will provide an undertaking that they will abide by the ethical standards and values of Scyne and have declared any prior professional misconduct.

Scyne has established numerous frameworks and policies to encourage ethical conduct and the processes for dealing with such conduct in an effort to ensure consistency in their application.

Probity Review

Finance recognises the ethical soundness of Scyne must include due consideration for the new staff of Scyne. We understand that Scyne will be largely resourced from existing PwC staff.

As evident from the TPB matter, there were many PwC staff aware of the breach of confidential Australian Government information. We understand that the PwC frameworks in place to identify ethical issues rely solely on peer reporting. However, none of these staff aware of the TPB issue reported this conduct, and as such there may be some legacy issues impacting the cohort of PwC staff transferring to Scyne.

Scyne acknowledged the need to provide the Commonwealth with assurances about the ethical standing of the staff transitioning from PwC to Scyne and confirming their appropriateness to be employed by Scyne. To this end, Mr Greenwood undertook an inquisitorial investigation of all individuals to be employed by Scyne to identify and consider those who had been subject to findings of deficient ethical behaviour, and whether it was appropriate for them to remain at Scyne.

Process

Mr Greenwood used a three-phase approach to the pre-employment probity review:

Phase 1: use of the below criteria to identify staff that should be investigated further:

- Involvement in provision of consulting services related to the TPB, Robodebt, or Top Education matters.
- Subject to PwC or external processes for ethical, integrity, Code of Conduct or confidentiality matters.

- Involvement in any other relevant matters that were not known or yet to be investigated.

Phase 2: interview of staff identified in Phase 1

- Prior to these interviews, staff were required to sign a declaration indicating their answers were true, correct and to the best of their knowledge.

Phase 3: engaging with all other individuals who propose to transition to Scyne, who were not identified previously.

Mr Greenwood also states his investigation was informed by examination of all relevant documents held by PwC and attendance at meetings with PwC, KWM, Allens and Commonwealth, State and Territory officials.

Report

Mr Greenwood's report outlined the circumstances of the 57 individuals identified through Phase 1. The relevant test applied by Mr Greenwood is whether the individual was unfit for probity reasons to provide services to public sector agencies. Mr Greenwood provided the reasons in support of his conclusions. Where relevant, Mr Greenwood also recommended that particular individuals should have additional conditions connected to their employment at Scyne. This includes reporting quarterly to the Probity Sub-Committee of the Board on compliance with Scyne's policies or instituting a probationary period.

As a result of Mr Greenwood's investigations, the following conclusions were made:

- None of the partners or professional staff transitioning to Scyne were involved in the TPB matter.
- There are no concerns with the administrative staff transferring to Scyne from the enabling functions of PwC.
- None of the interim leadership team had been subject to any process concerning their conduct, from PwC or an external body. This was supported by an interview and a sworn declaration that there were no ethical, integrity or Code of Conduct matters that needed to be disclosed.
- None of the remaining individuals to be employed by Scyne had been subject to any process concerning their conduct, from PwC or an external body. This was supported by a sworn declaration that there were no ethical, integrity or Code of Conduct matters that needed to be disclosed.
- Of the 57 individuals outlined in the report, Mr Greenwood concluded that 53 meet the relevant test and were fit for probity reasons to provide services to public sector agencies. The remaining four individuals were partners in governance positions at PwC. Mr Greenwood does not provide the outcome of his investigations into these four partners within his report.

- We understand that two PwC partners did not meet the relevant test for probity, as they served in governance and leadership roles at PwC during the handling of the TPB matter.

Finance's consideration

Finance acknowledges the rigorous process undertaken to assess the appropriateness of individuals to be employed by Scyne. This includes interviews of high-risk individuals to be employed by Scyne, and declarations sought from all transferring staff.

Finance relies on Mr Greenwood's assessment and the information he shared in his report, noting that we have not undertaken independent investigations into individuals. We note the conclusions that Mr Greenwood has reached and the subsequent assurances he has provided us. We also note the attestations of KWM and Allens. As such, we consider that those individuals transferring to Scyne are fit to engage with the Commonwealth on probity grounds.

Dr Longstaff AO of The Ethics Centre

To support Finance's examination, Dr Simon Longstaff AO from The Ethics Centre was engaged to provide specialist advice on ethical considerations of Scyne.

Dr Longstaff AO prepared a report with the following observations:

- Scyne's response to the Switkowski Review recommendations is generally appropriate.
- There are distinctive differences between PwC and Scyne, and the nature of these differences reduces the likelihood of Scyne engaging in conduct similar to that which occurred at PwC. This includes:
 - a single line of business;
 - a Board overseeing a single, coherent governance structure;
 - a CEO appointed by and reporting to the Board;
 - detailed governance structures with a clear focus on probity;
 - the use of a 'balanced scorecard' to evaluate performance on grounds that go beyond financial performance; and
 - a remuneration framework that balances long-term and short-term objectives.
- Scyne has demonstrated that it is committed to the restoration of trust both internally and externally. Dr Longstaff questions whether Scyne's approach to restoring trust creates the risk that achieving this is deemed an endpoint, rather than embedded within the organisation's values.

- Scyne indicated there would be “an inflexible standard on breaches of the Code of Conduct and conflict of interest breaches”.
- While the core elements of values, principles and purpose were identified, they appeared in multiple forms, across multiple documents and this could create confusion. As such, Scyne could benefit from a process of consolidation.
- Dr Longstaff noted that there were two matters which required further attention and considered should be addressed by specific measures.
 - Director independence.
 - The reluctance to investigate improper conduct, or to hold those responsible accountable particularly in cases linked to large sources of revenue.
- Dr Longstaff considered Finance could attach conditions (as clear benchmarks) to any recommendation to engage with Scyne. If Scyne met the set benchmarks, unrestricted approval could be granted after a period of monitoring.
- Dr Longstaff noted that Scyne presented a ‘complex picture’ and identified critical questions that required a response before the assessment on the ethical soundness of Scyne could be finalised. Mr Greenwood, responded to those questions on 26 September 2023.
- Dr Longstaff’s final commentary on Scyne, was that there remained ‘critical deficiencies’ around director independence, an overly complex ‘ethics framework’, limited advice on employee entitlements should Scyne fail and necessary monitoring of Scyne to ensure alignment between the espoused ethics framework and the experience of stakeholders once implemented.

Noting the above, Dr Longstaff concludes that Scyne has put in place (or is currently working to develop) the core elements that Finance should be able to rely on when assessing whether or not it is fit to contract with the Commonwealth. However, noting that Scyne presents a complex picture Dr Longstaff recommends that:

- Finance seek from Scyne a series of undertakings as a precondition for giving its approval for the transaction to proceed. These conditions could include Scyne:
 - submitting its core Ethics Framework of Values, Principles and Purpose within three months of Finance giving its approval for the transaction to proceed.
 - answering all significant questions, not otherwise addressed, within a period of three months.
 - submitting a report prepared by an independent expert third party indicating the degree of alignment between what is espoused by Scyne in its core Ethics Framework and what is practiced (and in the opinion of key stakeholders perceived to be practiced) annually for a period of three years.
- Should the undertakings not be given then approval should be withheld.

- Should the undertakings not be honoured within an agreed timeframe, then Finance would recommend that the Commonwealth withdraw from further engagement with Scyne.
- Until such time as the undertakings are discharged, all contracts between the Commonwealth and Scyne include a clause noting that they are subject to the undertakings being discharged in full.

Dr Longstaff notes that the conditions he has identified are indicative of what Finance may wish to consider.

Finance's assessment of Dr Longstaff's report

Finance notes Dr Longstaff's view that there are distinctive differences between PwC and Scyne, and the nature of these differences would reduce the likelihood of Scyne engaging in conduct similar to that which occurred at PwC in the TPB matter.

Finance also notes that the significant questions that Dr Longstaff had raised in his report were subsequently addressed by Mr Greenwood and considered as a part of Finance's final assessment.

Dr Longstaff's primary recommendation is that Finance continue to monitor Scyne's implementation of its proposed ethics, accountability and governance arrangements to ensure that they are appropriately delivered. Finance supports this recommendation and considers that any approval should be conditional on Scyne delivering against its committed activities.

Finance considers that it would be prudent to require Scyne to provide regular updates on its progress in developing its ethical and accountability frameworks. For example, Mr Greenwood has identified that Scyne is currently undertaking an internal consultation process to develop and refine its organising principles.

Finance considers that amendments to contracts or future independent reviews of Scyne are not warranted at this stage, and that the proposed actions fulfil the underlying intent of Dr Longstaff's recommendations.

Finance also notes that Dr Longstaff raised concerns about director remuneration and the independence of directors of the Board. Finance recognises these concerns, however as Scyne has undertaken to adopt ASX Governance standards, the issuing of shares to Directors would fall under the provisions and obligations of the Corporations Act and would be subject to regulation by ASIC.

The Corporations Act includes detailed legal requirements regarding the provision of shares to employees including disclosure of interests which could be relied upon to govern how

Scyne issues shares to its employees.¹ There is no current ASIC or ASX rule that would preclude an independent director from being offered a small, non-material shareholding as is proposed by Scyne. Finance considers that ASIC regulation in addition to Scyne's written assurances that no director will retain a shareholding that would be considered material are appropriate controls in managing the independence of Scyne's independent directors.

Lastly, Finance acknowledges Dr Longstaff's observation that there is limited advice on employee entitlements should Scyne fail. Financial viability is a relevant consideration in the procurement of a supplier. Noting the risk raised by Dr Longstaff, Finance will seek regular advice on Scyne's financial viability as part of its ongoing monitoring arrangements.

Conclusion

Finance considers that Scyne's response to the Switkowski Review sufficiently addresses the recommendations and describes initiatives to address the structural and cultural concerns and anomalies that led to or enabled the types of behaviours exhibited in the TPB matter.

Finance notes the assurances from external law firms KWM and Allens which advise that they had not identified any individuals to be employed at Scyne as being involved in the dissemination of confidential information or other wrongdoing that was the subject of findings by the TPB.

Finance also notes that PwC provided assurances that no individuals to be employed at Scyne had been involved in the wrongdoing that was the subject of findings by the TPB, or involved in the subsequent handling of the matter, subject to four exceptions. These individuals, who considered aspects of the TPB matter in their roles on PwC's executive and governance boards, were subject to Mr Greenwood's investigations, to determine if their involvement was material. It was determined that two of the four did not meet the expected ethical standing and would not transfer to Scyne; and the involvement of the other two was not material. Overall, Mr Greenwood has attested that following his investigations he was satisfied that none of the partners or professional staff transitioning to Scyne were involved in the TPB matter. Finance is satisfied with the outcome.

Finance further notes that Mr Greenwood has independently undertaken investigations to identify whether any individual to be employed at Scyne has been the subject of any investigation and/or adverse finding in relation to any deficiency in ethical behaviours. Mr Greenwood has shared the outcomes of his review and his methodology with Finance. Reflecting on Mr Greenwood's review, Dr Longstaff advised that this was good practice, and Finance also considers it sufficiently investigated and considered the probity of staff to be engaged in Commonwealth contracts. The outcome of Mr Greenwood's review was that all

¹ Sections 706, 708 and 710 – 716 of the Corporations Act include provisions relating to the offers of shares and disclosure requirements.

individuals offered employment at Scyne are appropriate. Scyne has advised that it has developed and implemented several policies and frameworks which go to establishing an ethically sound governance structure and culture. These include:

- a Code of Conduct that sets expectations for ethical conduct, culture, accountability and the full and frank disclosure of any breaches;
- a Speak Up Policy to encourage people to speak up if they suspect or become aware of potential misconduct;
- a Consequence Management Policy which sets out a process for addressing unethical behaviour;
- a framework for managing conflicts of interest, including controls, monitoring and reporting provisions;
- governance by a Board of Directors including non-executive directors and an independent non-executive chair and regulated by ASIC under the Corporations Act;
- adoption of ASX Governance standards by the Board and all its sub committees; and
- establishment of a Probity, Conflicts and Ethics Committee with a majority of independent non-executive directors whose charter includes embedding a 'culture of compliance' with Scyne's ethical and cultural values.

Scyne and Mr Greenwood have not identified any conflicts of interest relevant to individuals to be employed at Scyne and have implemented policies to manage future conflicts of interest. Based on the information provided to Finance, we also consider this issue has been appropriately addressed, and can be managed should an issue arise in the future.

We acknowledge the frameworks and steps taken by Scyne to establish an organisation that is distinct from the issues prevalent in PwC. However, we also note that as these proposed processes are yet to be tested, Finance considers close monitoring will be required to provide us with assurances that the governance structures and policy frameworks are operating as intended.

Finance acknowledges that if Scyne is approved for inclusion onto panels and novated, they will be subject to Commonwealth contractual obligations, including the notification of significant event clauses.

Recommendations

In summary, Finance has completed its assessment of Scyne and concludes that Scyne has, or is in the progress of implementing, appropriate governance, ethical and cultural structures to support contracting with the Commonwealth.

Noting that many of Scyne's proposed processes will be implemented over the coming months, Finance considers that it would be prudent to monitor Scyne's compliance with their proposed ethical frameworks. Finance recommends the following steps be taken:

1. That Finance monitor Scyne's implementation of its ethical and accountability frameworks. This includes:
 - Scyne providing to Finance its core ethical framework of values, principles and purpose within three months of advice on the outcome of Finance's assessment.
 - Scyne providing bi-annual updates to Finance on its progress including:
 - advice from Scyne on any Code of Conduct breaches and the outcome of any investigations,
 - evidence of the frameworks being applied in the practical decision making of the company, and progress on implementing its ethical framework.
2. Finance engage with Scyne on a monthly basis (to October 2024 or longer if required) to discuss its contractual performance. This would involve Finance engaging with those Commonwealth entities that contract with Scyne over that period regarding Scyne's performance under those contracts.
 - This approach will enable Finance to build a strong understanding of Scyne's operations and provide Finance with a separate source of information regarding their performance (including ethical performance) under Commonwealth contract.