

**AUDITING THE AUDITORS: CONSULTANT DEPENDENCY, WHISTLEBLOWER
RETALIATION, AND CASE FOR STRUCTURAL SEPARATION**

*A Critical Analysis of Big Four Multidisciplinary Partnerships, Parliamentary Accountability
Activation, and the 2024–2026 KPMG Audit Scandal*

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Structured Abstract

Purpose: This academic study investigates the systemic erosion of audit independence and the rise of consultant dependency within the Australian 'Big Four' accounting firms, specifically focusing on the 2024–2026 KPMG whistleblower scandal.

Design/Methodology/Approach: Operationalised through the six-element IDEALS framework, the study employs qualitative process tracing across a comprehensive parliamentary documentary corpus spanning four inquiry streams (2019–2026).

Findings: The empirical analysis demonstrates that multidisciplinary partnerships utilise a 'land-and-expand' strategy that prioritises lucrative non-audit consulting fees (~80% of revenue) over statutory audit gatekeeping duties (~20%). Parliamentary committees act as vital 'upstream producers' of visibility, using constitutional powers to achieve 'accountability inversion' and rebalance power for vulnerable whistleblowers.

Practical and Policy Implications: Voluntary self-regulation and internal operational separation (Option 2B) fail against shared partner profit incentives. The study outlines a seven-pillar legislative agenda mandating complete structural separation (Option 2C) under the Australian Corporations Act 2001 (Cth).

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1.0 Introduction

Over the past four decades, public administration globally has undergone a profound structural transformation driven by neoliberal policy agendas and New Public Management (NPM) doctrines. These policies systematically promoted contractual outsourcing, public sector marketization, and the adoption of private-sector managerial techniques, establishing what critical scholars describe as the 'consulting state'. In Australia—which has expanded into the world's fourth-largest management consulting market—public sector reliance on consultants has hollowed out internal administrative capabilities, creating a profound capacity risk for democratic governance. Major professional service partnerships, most notably the Big Four (Deloitte, EY, KPMG, and PwC), operate across incompatible institutional fields, auditing public and private entities while marketing commercial tax-minimization strategies and government advisory services. This multi-field presence creates severe structural conflicts of interest, where partners' commercial incentives systematically collide with public-interest ethical duties. The scale of this regulatory crisis is highlighted by formal disclosures from the Australian Securities and Investments Commission (ASIC), which has 551 separate audit misconduct complaints against Big Four partnerships. Following the PricewaterhouseCoopers (PwC) tax policy confidentiality leak, the controversy surrounding KPMG exposed systemic institutional misconduct, including the improper access and commercial misuse of confidential client board documents during statutory audit tenders (Lendlease, Westpac, Dexus, Optus), retaliatory covert surveillance against an internal whistleblower, misleading transparency disclosures, and dual-engagement conflicts of interest in the New South Wales Transport Asset Holding Entity (TAHE) affair.

This study's primary research objective is to evaluate how parliamentary committees activate public accountability for powerful professional service partnerships operating within a neo liberalised state that has become structurally and epistemically dependent on private consulting expertise. Through a comparative analysis of the PwC tax confidentiality affair and the subsequent 2024–2026 KPMG audit tender controversy, this paper investigates the dynamic relationships among NPM, professional power, and legislative oversight. To address this objective, the study is guided by its central research question: 'How do parliamentary committees activate public

accountability for powerful professional service firms operating within a neo liberalised and consultant dependent state?'

To address this question, the study employs a qualitative research methodology that combines documentary process tracing with public-interest investigative journalism methods to analyze a comprehensive, multi-tiered parliamentary documentary corpus spanning four inquiry streams between 2019 and 2026. Operationalized through the six-element IDEALS policy evaluation framework (Identify, Define, Enumerate, Assess, List, Self-reflect), data analysis followed a two-stage qualitative content analysis and thematic protocol on verbatim Hansard transcripts, tabled submissions, unredacted whistleblower statements, and statutory regulatory filings. Triangulating parliamentary artifacts against investigative reporting and ASIC disclosures ensured empirical rigor and construct validity.

The empirical findings reveal that parliamentary committees operate as active upstream producers of public visibility rather than passive oversight bodies, deploying constitutional powers such as parliamentary privilege and coercive witness cross-examination to achieve accountability inversion. The study conceptualizes two distinct empirical pathways of legislative intervention: 'accountability amplification' (e.g. PwC), where Senate Estimates scrutiny multiplied pre-existing regulatory enforcement and investigative journalism; and 'accountability activation' (e.g. KPMG), where Parliament directly created public visibility for suppressed whistleblower claims. This activation pathway operationalizes 'accountee-ability' by giving vulnerable insiders without institutional standing an authoritative platform to compel corporate answers independently. Evaluating contemporary Department of the Treasury reform options, the study concludes that voluntary self-regulation and operational ring-fencing fail against multidisciplinary 'land-and-expand' commercial growth strategies, demonstrating that mandatory complete structural separation under the Corporations Act is required to permanently sever audit practices from consulting divisions and restore statutory audit independence.

The remainder of this manuscript is structured across seven subsequent sections that sequentially build the theoretical, empirical, and policy arguments for mandatory structural separation. Section 2 (Background Context) examines the political economy of Big Four economic dominance in Australia, analyzing how New Public Management procurement expansion hollowed out public sector capability and enabled partnership structures to exploit an institutional 'spatial gap'. Section

3 (Literature Review) synthesizes prior Australian Big Four scholarship across four thematic clusters: public sector consultant dependency, higher education colonization, off-budget infrastructure financial engineering, and tax advisory concentration—before identifying the three-pillar research gap in statutory audit governance. Section 4 (Research Methods) details the qualitative process-tracing protocol, outlining the operationalization of the IDEALS framework, the four parliamentary inquiry streams (2019–2026), the typology of Hansard transcripts and tabled evidence, and the two-stage coding framework. Section 5 (Findings) presents granular empirical evidence detailing KPMG's client board document misuse during audit tenders, retaliatory whistleblower surveillance, the collapse of internal corporate containment, truth recantations, and active ASIC investigations. Section 6 (Analysis and Discussion) conceptualizes the comparative 'amplification' (PwC) and 'activation' (KPMG) pathways, detailing how parliamentary privilege achieves 'accountability inversion,' evaluating Guthrie's critique of Taylor's 'bad apple' thesis, and establishing conflict of interest as a vital academic research endeavour. Section 7.0 (Options for Accounting and Auditing Regulation) operationalizes the IDEALS framework to evaluate Treasury Category 2 reform options, detailing a seven-pillar legislative agenda mandating complete structural separation (Option 2C) under the Corporations Act. Finally, Section 8.0 (Conclusions and Policy Implications) synthesizes the democratic implications of consultant dependency, advances a theoretical model of parliamentary accountability activation, and outlines four avenues for future accounting research.

2. Background: Compulsory Statutory Audit and Audit Integrity

Compulsory statutory audit constitutes a foundational institutional mechanism for preserving capital market integrity, facilitating efficient resource allocation, and mitigating agency costs in contemporary economies. In both Australian and global capital markets, the statutory mandate requiring an independent, objective examination of annual financial statements reduces information asymmetry between corporate managers and external stakeholders, including shareholders, creditors, employees, and public regulators (Watts and Zimmerman, 1983). By verifying that financial disclosures present a true and fair view under established accounting standards, compulsory auditing lowers the cost of capital, deters financial misrepresentation, and instils the public confidence necessary for market stability (DeAngelo, 1981). Audit integrity is paramount because published financial statements serve as the baseline for pricing securities and contracting; if commercial bias or multidisciplinary conflicts of interest compromise audit quality,

the epistemic credibility of financial reporting collapses, triggering severe market failures and therefore the superannuation and savings of millions of Australians.

Brief History of Regulation and Requirement for Statutory Audit

The statutory requirement for independent audits developed alongside the expansion of joint-stock corporations and the separation of ownership from managerial control during the nineteenth century. In the United Kingdom, early legislative frameworks such as the Joint Stock Companies Act 1844 and the landmark Companies Act 1900 progressively codified mandatory financial statement audits for limited liability companies to safeguard shareholders against corporate malfeasance (Edwards, 2013). In Australia, state-based company statutes mirrored these British developments through the late nineteenth and early twentieth centuries, culminating in uniform national corporate legislation under the Companies Act 1961 and, later, the Corporations Act 2001 (Cth) (Gibson, 1971). Internationally, statutory mandates were further fortified following systemic economic crises, notably through the United States Securities Exchange Act of 1934 and post-Enron reforms such as the Sarbanes-Oxley Act of 2002, which established statutory oversight bodies to enforce independent audit mandates.

Brief History of Legislation Requiring Annual Financial Statements

Parallel to the development of audit regulation, the legislative requirement for commercial organisations to prepare and publish annual financial statements evolved to ensure corporate transparency in exchange for state-granted limited liability. Historically, early corporate charters lacked standardised disclosure obligations, allowing corporate insiders to withhold operational results. The British Joint Stock Companies Act 1844 established the initial statutory mandate requiring directors to keep proper books of account and present an annual balance sheet to members (Edwards, 2013). Over the twentieth century, Australian statutory frameworks systematically expanded these disclosure mandates from basic balance sheets to comprehensive financial reporting packages, including income statements, cash flow statements, and explanatory notes. The Australian Corporations Act 2001 (Cth) requires public companies and large proprietary entities to prepare annual financial reports in accordance with Australian Accounting Standards (AASB).

Size and Revenue Structure of the Big Four Market

In the contemporary Australian economy, the market scale and revenue composition of the Big Four accounting partnerships (Deloitte, EY, KPMG, and PwC) highlight a profound structural shift in professional service firms. Non-accounting and non-audit advisory services (designated as Category 3 services) now account for approximately 80 per cent of the Big Four's \$9.2 billion 2025 total revenue in Australia. Consequently, non-audit consulting generates roughly \$7.36 billion annually, while traditional statutory audit and accounting assurance services represent only 20 per cent, or approximately \$1.84 billion (Guthrie, 2026a). This stark financial imbalance highlights that the Big Four are no longer traditional accounting partnerships in any conventional sense; they have become global management-consulting behemoths that use their historical status as statutory auditors as a commercial loss-leader, a foot in the door to secure highly lucrative advisory engagements.

Table 1: Global Revenue and Workforce Footprint of the Global Big Four Accounting Partnerships (2025)

Table 1 provides a comparative financial and operational overview of the global Big Four accounting partnerships in 2025, detailing global revenue, Australian revenue breakdown (highlighting the ~80% non-audit advisory split), and total partner and staff headcount.

Firm Name	Global Revenue 2025 (USD)	Australian Revenue 2025 (AUD)	Est. Non-Audit Consulting Share	Global Headcount (2025)
Deloitte	\$67.2 Billion	\$2.85 Billion	81% Advisory / 19% Audit	457,000
PwC	\$55.4 Billion	\$2.35 Billion	79% Advisory / 21% Audit	370,000
EY	\$51.2 Billion	\$2.20 Billion	78% Advisory / 22% Audit	395,000

KPMG	\$38.4 Billion	\$1.80 Billion	80% Advisory / 20% Audit	273,000
Total Big Four	\$212.2 Billion	\$9.20 Billion	~80% Advisory / ~20% Audit	1,495,000

Source:

Historical Context of Big Four Dominance in Australia

Over the past four decades, the global landscape of public administration has undergone a profound structural transformation driven by neoliberal policy agendas and the tenets of NPM (Hood, 1991; Christensen, 2005). These administrative policies systematically promoted public sector marketisation, contractual outsourcing, asset privatisations, and the widespread adoption of private-sector managerial techniques as primary mechanisms for achieving efficiency, flexibility, and fiscal discipline (Guthrie, 1998; Lapsley and Miller, 2024). A highly consequential outcome of this systemic shift has been the rapid expansion and institutionalisation of private management consulting partnerships within the machinery of democratic governance, establishing what critical scholars describe as the 'consulting state' (Mazzucato and Collington, 2023). Rather than operating as external, temporary vendors of technical advice, major multidisciplinary professional service partnerships, most notably the Big Four (Deloitte, EY, KPMG, and PwC), have become deeply embedded in the design, implementation, evaluation, statutory audit, and assurance of public policy (Guthrie, Andrew and Twyford, 2023).

In the Australian context, this market expansion reached unprecedented proportions. Official evidence from the Senate Finance and Public Administration References Committee inquiry into consulting services documented four remarkable structural shifts in public procurement (COA, 2024a). First, Commonwealth expenditure on consultancy services nearly tripled between 1987 and 1993 during initial microeconomic reform initiatives. Second, by 2016–17, federal spending on consultants was 2.7 times higher in real terms than in 1988–89, demonstrating sustained long-term growth across successive governments. Third, Australia's total management consulting market expanded to become the world's fourth largest by 2024 in absolute financial terms (COA, 2024a). Fourth, the Big Four accounting partnerships consistently captured both the largest volume and total monetary value of federal government contracts, solidifying an oligopolistic market

position across statutory auditing, tax advisory, and general management consulting services (COA, 2024a; Lucas et al., 2026).

New Public Management and Public Procurement Expansion

NPM's ideological foundation rested on scepticism toward traditional public-administration bureaucracy, asserting the superiority of private-sector market mechanisms and calculative managerial technologies (Christensen and Parker, 2010; Monbiot and Hutchinson, 2024). Management consulting firms operated as a self-reinforcing epistemic community that actively promoted marketized practices, accrual accounting, performance metrics, and off-budget financial engineering across public sector agencies (Guthrie et al., 1999; Lapsley and Oldfield, 2001; Humphrey, 2005). As Lapsley and Oldfield (2001) observe, Big Four consultants were characterized by three defining operational attributes: an intense ideological commitment to commercial management techniques, deep immersion in professional networks of like-minded corporate elites, and an acute organisational focus on brand positioning and commercial image management.

However, decades of unrestrained public procurement expansion generated severe structural consequences for state capacity. As Mazzucato and Collington (2023) argue, extensive and continuous reliance on external consulting advice creates an acute capacity risk by systematically hollowing out internal public sector capability. When core administrative tasks, policy design, and operational evaluations are outsourced, the state loses its institutional memory and its ability to independently evaluate vendor claims, manage complex contracts, or govern in the public interest without private intervention (CPI, 2025). Consequently, public sector agencies develop a state of 'functional blindness' and epistemic dependency, relying on the private partnerships they are tasked with oversight (Lucas, Guthrie and Dumay, 2024).

A 'Consulting State' and Public Sector Capacity Risks

Under conditions of pervasive consultant dependency, public accountability can no longer be conceptualized as a static, linear pipeline of administrative disclosure and statutory sanction (Agyemang, 2024; Steccolini, 2026). Instead, accountability operates as a relational, recursive, and institutionally distributed struggle over information, visibility, and authority across overlapping societal fields (Baker and Free, 2026; Parker and Favotto, 2026). The institutional embeddedness of Big Four partnerships creates an acute accountability paradox: democratic

governments have become structurally and epistemically dependent upon the multidisciplinary partnerships they are mandated to regulate. The Big Four operate simultaneously across incompatible institutional fields, auditing multinational corporations and state entities, advising governments on complex tax legislation, marketing tax minimisation strategies to private corporate clients, and executing public sector procurement and reorganisations (Lucas et al., 2026).

This multi-field presence creates structural conflicts of interest wherein partners' commercial imperatives systematically collide with public-interest ethical obligations (Guthrie and Fels, 2023). Because Big Four firms operate as commercial partnerships motivated by partner profit maximisation, partners face immense structural pressure to expand advisory revenue. Sikka (2008) notes that under weak regulatory oversight, accounting partnerships treat statutory regulatory fines as minor overhead costs of doing business while pursuing aggressive commercial strategies to maximize profit distributions. The Big Four have achieved institutional capture through three primary mechanisms: first, becoming deeply integrated into the business operations they are mandated to audit; second, absorbing regulatory penalties as negligible business overheads; and third, remaining largely immune from the strict public accountability standards imposed on statutory public sector agencies (Shore and Wright, 2018).

Spatial Gaps and Partnership Governance Architecture

A fundamental structural factor enabling Big Four dominance is their unique legal and organizational architecture. The Big Four operate within a transnational financial field (Suddaby et al., 2007; Gillis et al., 2014) structured around soft law mechanisms, international franchise networks, and professional self-regulation (Cooper and Robson, 2006). Historically, professional ethical codes, such as the APESB 110 Code of Ethics for Professional Accountants, serve as a self-regulatory function designed to maintain professional authority and minimize direct statutory state interference (Parker, 1994). However, systemic Australian scandals across PwC and KPMG demonstrate the total failure of voluntary self-regulation under conditions of commercialized multidisciplinary practice (ASIC, 2026).

Crucially, by structuring their operations as private limited liability partnerships rather than public corporations, Big Four firms exploit an institutional 'spatial gap' (Malsch and Gendron, 2011; Radcliffe et al., 2018). This spatial gap represents a regulatory opacity that shields partnership governance, partner profit-sharing arrangements, internal disciplinary findings, and non-audit

consulting revenues from the statutory corporate governance and public disclosure requirements. Within this protected spatial gap, multidisciplinary partnerships deploy aggressive 'land-and-expand' commercial strategies (Nikidehaghani et al., 2026).

3.0 Contemporary Literature Review — Thematic Clusters and the Statutory Audit

To establish the empirical and theoretical foundations for evaluating Big Four accounting partnership governance in Australia, selected accounting scholarship maps existing literature across four interconnected thematic clusters (Lucas et al., 2026; Guthrie and Fels, 2023). While research has examined public sector consultant dependency, commercial colonisation across statutory institutions, off-budget financial engineering, and tax advisory concentration, prior scholarship leaves a vital empirical and theoretical gap regarding core statutory audit governance (Nikidehaghani et al., 2026). This section synthesises the four thematic domains of Australian Big Four accounting literature. It explicitly articulates the three-pillar research gap that justifies the empirical investigation into the 2024–2026 KPMG audit tender controversy.

3.1 Public Sector Consultant Dependency and the PwC Tax Leak

The first thematic cluster addresses the structural dynamics and systemic consequences of public sector consultant dependency. Utilising Luhmann's social systems theory, Lucas, Guthrie and Dumay (2024) analyse the confidentiality breach by PricewaterhouseCoopers (PwC) Australia during the collaborative design of multinational tax avoidance legislation between 2014 and 2023. They demonstrate that extensive government reliance on external advisory partnerships induces an acute state of 'functional blindness' within public sector agencies. This functional blindness enables commercial partnerships to colonise public-interest tax governance frameworks and weaponize insider policy knowledge for private partnership profit (Lucas, Guthrie and Dumay, 2024).

Examining the transnational spillover effects of this breach, Guthrie, Dumay and Ricceri (2024a) reveal that the Big Four's global franchise architecture allows international umbrella entities, such as PricewaterhouseCoopers International Limited (PwCIL), to strategically isolate reputational damage to local member firms while continuing to exploit cross-border knowledge networks for commercial gain. Furthermore, Guthrie, Dumay and Ricceri (2024b) demonstrate that traditional social responsibility constructs fail when applied to professional service firms, as ethics is

operationalised as an external public relations instrument rather than an internal moral constraint. Grounded in public-interest analysis, Guthrie, Andrew and Twyford (2023) emphasise that consulting market dominance systematically de-skills the public service, extracting state resources while generating severe structural conflicts of interest.

3.2 Commercial Colonisation of Higher Education and Calculative Governance

A second major literature stream investigates how private management consultants and calculative accounting practices colonise public higher education governance. Lucas et al. (2026) examine how calculative governance technologies and financialised performance metrics are deployed by management consultants and university executives to construct narrative claims of academic discipline '(un)viability', depoliticising aggressive cost-cutting decisions behind so called objective accounting masks. Similarly, Bernardi et al. (forthcoming) evaluate the colonising influence of management consulting firms across Australian public universities, finding that consultant engagements systematically substitute public educational values with commercialised metrics that casualise academic labour and centralise executive authority. Extending this critique to pedagogical surveillance, Sardesai et al. (2026b) investigate how consultants' 'accountingisation' and audit culture reduce university teaching governance to quantitative performance indicators, fostering compliance driven behaviours and creating an evaluative asymmetry between administrative surveillance and academic practice.

3.3 Off-Budget Financial Engineering

The third cluster examines management consultants as calculative agents of political convenience within public asset financialisation and infrastructure delivery. Focusing on the New South Wales public transport sector, Sardesai, Lucas and Guthrie (2026a) analyse how Big Four consultants engineered the Transport Asset Holding Entity (TAHE), an off-budget corporation designed to inflate state budget surpluses and conceal public debt artificially. Their empirical findings demonstrate how technical professional advice was weaponised to serve immediate political goals, bypassing traditional Treasury accounting controls until parliamentary scrutiny exposed the underlying financial unviability and workplace conflicts embedded within the structure (Sardesai, Lucas and Guthrie, 2026a). This stream demonstrates that accounting partnerships routinely exploit opacity in financial and budget reporting to serve executive political interests at the expense of fiscal transparency.

3.4 Tax Advisory Governance

The fourth theme critiques the political economy and market concentration of multidisciplinary accounting partnerships. Lucas et al. (2026) critique the Big Four's oligopolistic dominance over global tax architecture, showing that acting simultaneously as state policy advisors and corporate tax-minimisation architects creates a self-reinforcing commercial loop in which consultant-designed tax laws generate lucrative private advisory demand. Addressing regulatory deficits, Guthrie and Fels (2023) conclude that voluntary self-regulation and professional ethical codes (such as APESB 110) are fundamentally ineffective against oligopolistic market power, advocating for mandatory structural separation between audit and non-audit consulting, firm rotation, and independent statutory oversight.

3.5 A Research Gap in Statutory Audit Governance

Despite insights across these four literature streams regarding The Big Four partnerships consulting, higher education, and tax advisory breaches, an empirical and theoretical gap remains regarding core statutory audit governance and the contemporary 2024–2026 KPMG audit tender controversy. Existing literature leaves three vital dimensions under-theorised. First, Audit Independence versus Tender Integrity: Current scholarship lacks empirical investigation into how Big Four firms compromise client board confidentiality and misuse proprietary client data within their core statutory audit and assurance practices to secure commercial tender advantages (e.g., Lendlease, Westpac, Dexus, Optus). Second, Whistleblower Suppression in Statutory Audit. While existing literature acknowledges general whistleblower vulnerabilities, prior studies have not analysed how multidisciplinary partnerships deploy covert surveillance, internal non-disclosure agreements, legal threats, and corporate containment shields (such as 'Project Magenta') to suppress whistleblowers reporting statutory audit non-compliance. Third, Parliamentary Accountability Activation in Audit. Current frameworks treat Parliament as either a reactive oversight body or a secondary agenda-setter. Existing literature lacks an empirical investigation into how parliamentary committees utilise parliamentary privilege, coercive witness cross-examination, and procurement sanctions (such as bidding suspensions) to achieve 'accountability inversion' specifically within statutory audit engagements.

This three-pillar research gap justifies the empirical investigation into the contemporary KPMG audit scandal, bridging the critical divide between public sector consulting critiques and core statutory audit governance (Nikidehaghani et al., 2026).

4.0 Research Methods

4.1 Methodological Orientation and Epistemological Framework

Accounting scholarship examining professional service firm governance, audit independence, and corporate political influence increasingly relies on qualitative documentary process tracing to investigate complex organisational misconduct (Bennett and Checkel, 2015; Free, 2026).

Traditional empirical accounting research often privileges capital markets datasets or quantitative financial disclosures; however, these sources are inherently limited when examining non-public corporate partnerships, confidential consulting engagements, and informal political lobbying. To overcome this empirical opacity, critical accounting scholars utilise parliamentary proceedings, including committee reports, tabled submissions, and verbatim Hansard oral examination transcripts, as primary empirical artifacts (Sikka, 2008; Humphrey et al., 2009; Free, 2026). Drawing on the theoretical framework of the 'accountability complex' (Baker and Free, 2026) and 'parliamentary accountability activation' (Parker and Favotto, 2026; Steccolini, 2026), this study adopts a qualitative, longitudinal process-tracing research design (Bennett and Checkel, 2015; George and Bennett, 2005) to analyse the systemic failures of governance and independence across professional accounting partnerships in Australia.

Process tracing is well suited to unpacking complex legislative and regulatory interventions because it lets researchers trace causal mechanisms, information flows, and power dynamics sequentially over time (George and Bennett, 2005; Blaikie, 2007). Australian parliamentary committees operate as powerful 'upstream producers' of public visibility (Steccolini, 2026). By deploying constitutional powers, such as parliamentary privilege under Section 49 of the Australian Constitution and coercive witness cross-examination, parliamentary inquiries extract internal corporate records, unredacted whistleblower correspondence, and regulatory complaints that remain otherwise legally shielded behind client legal privilege or corporate non-disclosure agreements (PJCCFS, 2026; Senate Finance and Public Administration References Committee,

2024b). Consequently, parliamentary artifacts do not merely mirror external events; they actively transform private corporate disputes into authoritative, contestable public records, providing a unique empirical lens for critical accounting inquiry.

4.2 Operationalisation of the IDEALS Policy Framework

To evaluate existing statutory regulatory inadequacies and critically assess proposed regulatory options, the research methodology operationalises the six-element IDEALS framework developed by Dumay (2024). The IDEALS framework provides a systematic policy analysis tool that bridges qualitative empirical findings with formal statutory reform, evaluating whether regulatory settings ensure professional accounting partnerships deliver service appropriateness in the public interest (Degeling et al., 1996; Free, 2026). Table 2 summarises how each structural component of the IDEALS framework is operationalised across the paper's analytical structure.

Table 2: Operationalisation of the IDEALS Framework in Paper Structure

IDEALS Element	Methodological Application and Paper Section	Analytical Focus and Public Interest Objective
I — Identify the Problem	Section 3	Establishes core moral hazard, systemic conflicts of interest, and ethical failures (KPMG audit tender, PwC tax leaks).
D — Define the Context	Sections 2 and 3 (Background and Literature)	Maps the political economy of Big Four market concentration, NPM consultant dependency, and the spatial gap exploited by partnership governance.
E — Enumerate the Options	Section 5	
A — Assess the Options	Section 6	

L — List Explicitly Section 7.0 (Recommended Policy)

S — Self-Reflect Section 8.0 (Conclusion and Implications) Evaluates implementation constraints, transition management and future research directions.

4.3 Parliamentary Corpus

To comprehensively investigate the regulatory landscape surrounding Big Four accounting partnerships in Australia, a multi-tiered empirical dataset was compiled across four interconnected legislative and regulatory inquiry streams spanning from 2019 to 2026 (COA, 2024a; PJCCFS, 2026). The empirical corpus comprises four distinct categories of parliamentary evidence, systematically gathered from the official archives of the Parliament of Australia and state legislative assemblies:

First, the 2019–2020 PJCCFS Inquiry into Audit Regulation: The 2019–2020 Parliamentary Joint Committee on Corporations and Financial Services (PJCCFS) Inquiry into the Regulation of Auditing in Australia, which established an empirical baseline regarding audit market concentration, multidisciplinary cross-selling incentives, and regulatory oversight deficits (PJCCFS, 2020).

Second, the 2023–2024 Senate Management Consulting Inquiry: The 2023–2024 Senate Finance and Public Administration References Committee Inquiry into Management Consulting Services, spurred by the PricewaterhouseCoopers (PwC) tax confidentiality leak, which documented federal consulting procurement expansion and state de-skilling (COA, 2024a; Senate Finance and Public Administration References Committee, 2024b).

Third, the ASIC Oversight and Enforcement Disclosures: Parliamentary disclosures and tabled submissions regarding the Australian Securities and Investments Commission (ASIC) enforcement activities, including ASIC's formal examination of 551 audit misconduct complaints against Big Four firms (ASIC, 2026).

Fourth, the 2024–2026 PJCCFS KPMG Inquiry: The 2024–2026 Parliamentary Joint Committee hearings specifically examining KPMG, which addressed allegations of improper client board

document access during statutory audit tenders (Lendlease, Westpac, Dexus, Optus), retaliatory whistleblower surveillance, 'Project Magenta' containment, and misleading transparency report disclosures (PJCCFS, 2026).

4.4 Data Collection and Two-Stage Qualitative Coding

Data analysis followed a two-stage qualitative content analysis and thematic coding protocol (Miles, Huberman and Saldaña, 2014; Braun and Clarke, 2006), executed within qualitative data analysis. The analytical procedure was designed to systematically map how parliamentary inquiries alter information properties and force 'accountability inversion' upon elite partnerships.

In the first stage, Hansard transcripts, tabled evidence, and committee reports were subjected to first-order temporal and event-based coding. This process established detailed chronological event matrices for both the PwC and KPMG scandals (as presented in Tables 3 and 4). First-order coding focused on identifying specific factual events: exact dates of internal client confidentiality breaches, regulatory notifications, whistleblower disclosures, parliamentary hearing dates, commercial procurement bidding suspensions, and executive resignations. First-order codes captured the raw voice and evidence of key actors, categorising verbatim statements under thematic headings such as 'audit tender mechanics,' 'misuse of confidential client data,' 'whistleblower retaliation,' 'Project Magenta corporate containment,' and 'conflicts of interest in multidisciplinary practices' (Miles et al., 2014).

In the second stage, the analysis synthesised first-order empirical codes into higher-level theoretical abstractions grounded in critical accounting literature (Braun and Clarke, 2006). The dataset was evaluated through four primary theoretical concepts: Accountee-ability (Steccolini, 2026), Accountability Inversion (Bovens, 2007; Steccolini, 2026), Consultant Dependency (Mazzucato and Collington, 2023), and Accountability Complex (Baker and Free, 2026).

4.5 Triangulation with Public-Interest Journalism

To ensure methodological trustworthiness, construct validity, and analytical rigor, this study employed data source triangulation (Yin, 2018). Parliamentary artifacts were systematically cross-referenced against external documentary sources, incorporating public-interest investigative journalism methods (Meyer, 2002; Bacon, 2011; Free, 2026). Investigative journalism plays a vital democratic role by uncovering hidden issues of public interest and scrutinising elite power (Serrin

and Serrin, 2002; Meyer, 2002). The data collection strategy systematically targeted major investigative media platforms driving national agenda setting—specifically The Australian Financial Review, ABC News, The Guardian, and Michael West Media cross-referencing media reports with technical analyses published by non-governmental organisations, including the Tax Justice Network, the International Consortium of Investigative Journalists (ICIJ), and the Centre for Public Integrity (CPI, 2025).

All media disclosures were cross-referenced with official Hansard transcripts, corporate submissions, and ASIC regulatory filings using a close reading protocol (Armenic and Craig, 2017). Triangulating parliamentary testimony against investigative reporting and statutory filings mitigated the potential risk of political bias or selective witness narratives inherent in parliamentary proceedings (Blaikie, 2007). Methodological limitations regarding political questioning in parliamentary committees and commercial exhibit redactions were addressed by prioritising evidence corroborated across multiple independent sources (Yin, 2018).

5.0 Findings: Evidence of KPMG Audit Misconduct

5.1 The Context of Big Four Governance Scandals in Australia

The empirical findings surrounding the KPMG audit tender scandal reveal a severe, multi-tiered breakdown in statutory audit governance, client confidentiality, professional ethics, and internal whistleblower protections. Rather than representing an isolated individual transgression, the evidence compiled across parliamentary submissions, Hansard cross-examinations, and regulatory disclosures demonstrates systemic institutional misconduct rooted in the multidisciplinary 'land-and-expand' commercial growth model. The scale of this regulatory crisis is evidenced by formal disclosures from ASIC, which, as at August 2026, was examining 551 separate audit misconduct complaints against Big Four firms. With specific reference to KPMG, the firm underwent formal statutory regulatory investigations regarding three primary categories of institutional failure: improper access to and commercial misuse of confidential client board information during audit tenders; contraventions of statutory whistleblower protection provisions; and alleged false or misleading statements incorporated within KPMG's 2025 Transparency Report.

5.2 Misuse of Confidential Client Board Documents

Between June and August 2023, senior KPMG partners improperly accessed and misused confidential board documents belonging to Lendlease Corporation regarding rival statutory audit bids submitted by EY and PwC. Armed with these confidential competitive insights and pricing structures, KPMG deployed proprietary client intelligence during major corporate audit tenders in late 2023 and early 2024, specifically targeting the Westpac Banking Corporation and Dexu Group statutory audit engagements. This unauthorised access allowed KPMG to compromise competitive tender integrity and secure selection as Westpac's preferred external auditor in March 2024, culminating in Westpac's formal appointment of KPMG as statutory auditor in December 2024. Furthermore, during the June 2026 PJCCFS public hearings, KPMG leadership was forced to acknowledge additional confidential data security breaches involving Optus client records, which ASIC Chair formally characterised as an 'egregious breach of trust'.

Table 3: Chronological Timeline of KPMG Misconduct and Response

Date / Period	Key Event and Misconduct Milestone	Institutional and Regulatory Outcome
June – August 2023	KPMG partners improperly access confidential Lendlease board documents detailing rival audit bids (EY, PwC).	Confidential competitor pricing used to wargame upcoming Westpac and Dexu audit tenders.
30 May 2024	Senior KPMG Audit Director submits formal internal whistleblower disclosure exposing client board data misuse.	KPMG executive leadership orders covert laptop surveillance and IT searches of whistleblower.
July – Nov 2024	KPMG leadership threatens whistleblower with employment termination; engages law firm Ashurst.	Whistleblower employment liabilities contained; internal investigation delayed.

May – Aug 2025	Whistleblower escalates concerns to KPMG International.	Internal review recommends partner sanctions; CEO delays enforcement.
Sept – Dec 2025	KPMG commissions law firm Allens to conduct 'Project Magenta' investigation.	Allens interviews 14 partners; delivers report Dec 2025 finding claims unsubstantiated.
24 March 2026	Senator discloses whistleblower claims under parliamentary privilege.	Unredacted correspondence tabled; national media crisis triggered; Project Magenta discredited.
May 2026	KPMG admits partner improperly accessed Lendlease papers.	KPMG CEO and National Audit Leader resign; Finance Department issues procurement review.
19 June 2026	PJCCFS conducts public hearing cross-examining KPMG leadership.	KPMG board emails published showing early partner attempts to discredit Senator.
8 – 14 August 2026	KPMG Chairman issues public apology to Senator.	Legal counsel admits 'truth was not told' by partners during initial internal interviews.
4 September 2026	ASIC confirms active formal investigations into KPMG auditors.	Investigations focus on client data misuse, whistleblower victimisation, and false Transparency Reports.

5.3 Whistleblower Disclosures

In May 2024, a senior KPMG audit director submitted a formal internal whistleblower disclosure exposing improper access to, and commercial misuse of, confidential client board documents during audit tenders. Rather than initiating an independent ethical investigation, KPMG leadership responded with covert retaliatory surveillance, ordering unauthorized IT searches of the whistleblower's corporate laptop. Between July and November 2024, KPMG leadership threatened the whistleblower with employment termination while IT personnel conducted further covert device searches to identify additional internal evidence held by the director.

When the whistleblower escalated concerns to KPMG International executives in 2025, an internal review panel recommended disciplinary sanctions against involved partners; however, KPMG Australia CEO delayed enforcement action. In September 2025, KPMG commissioned law firm Allens to conduct 'Project Magenta', an internal investigation into the whistleblower's allegations. In December 2025, Allens delivered a report based on just 14 brief partner interviews, concluding that the whistleblower's claims were unsubstantiated. Subsequent parliamentary scrutiny revealed that Project Magenta operated as a corporate containment exercise, a cover up, that failed to examine forensic laptop logs or rigorously cross-examine senior partners.

5.4 Parliamentary Accountability Activation

The corporate containment strategy collapsed on 24 March 2026, when Senator O'Neill utilized parliamentary privilege in a Senate speech to publicly disclose the whistleblower's allegations, placing unredacted correspondence before the Australian Parliament. This act of 'parliamentary accountability activation' bypassed KPMG's non-disclosure agreements and triggered an immediate crisis. Following parliamentary exposure, KPMG was forced to admit that a senior partner had improperly accessed Lendlease board papers, leading to the resignations of its CEO s and the National Audit Leader in May 2026.

Table 4: Key Interventions and Disclosures by the PJCCFS in the KPMG Inquiry

Intervention Date	PJCCFS Inquiry Action and Disclosure	Impact on Corporate and Regulatory Accountability
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24 March 2026	Senator O'Neill tables unredacted whistleblower correspondence under parliamentary privilege.	Bypasses corporate non-disclosure shields; activates national media scrutiny and triggers ASIC review.
19 June 2026	PJCCFS holds public examination of CEO and senior audit partners.	Exposes Project Magenta flaws; forces admission of Lendlease and Optus data security breaches.
2 July 2026	PJCCFS publishes internal KPMG board emails and WhatsApp messaging logs.	Reveals executive partner strategy to attack Senator's credibility; triggers public backlash.
14 August 2026	Committee cross-examines KPMG legal counsel and incoming Chair.	KPMG counsel formally admits 'truth was not told' by partners during initial internal interviews.
4 September 2026	Committee tables Interim Report recommending statutory whistleblower amendments and ASIC prosecution.	ASIC launches formal investigation under Corporations Act and Finance Dept suspends tenders.

5.5 Dual-Engagement Conflicts of Interest: TAHE and Macquarie Bank

These statutory audit tender breaches follow earlier evidence of dual-engagement conflicts of interest during the New South Wales Transport Asset Holding Entity (TAHE) affair. In that instance, KPMG accepted dual consulting engagements on opposing sides of a politically charged dispute between government departments with divergent policy objectives. One KPMG team produced technical financial modelling to justify an off-budget corporation designed to inflate state budget surpluses, managing overlapping consulting teams amidst documented workplace humiliation and unprofessional conduct. As Sardesai et al. (2026) observe, the TAHE affair

demonstrated that KPMG's advisory practices operated outside public sector integrity standards, exploiting a lack of transparency to evade democratic oversight.

The commercial mechanics of audit tender manipulation were further illustrated by the Macquarie Group audit tender controversy (Tadros and Moullakis, 2026). Former KPMG partner and Macquarie director Michelle Hinchliffe was accused of helping KPMG wargame its pitch for Macquarie's \$100 million-a-year (\$1 billion over 10 years) audit contract. Whistleblower disclosures revealed that Hinchliffe provided confidential advice to KPMG regarding critical geographic expertise, suggested lead partners, and shared internal Macquarie spending data across Big Four firms. Despite declaring conflicts, Hinchliffe attended pitch presentations by rival firms EY and PwC, taking detailed notes and questioning competitors. Following whistleblower disclosures made under parliamentary privilege and an internal review by law firm Allens, Macquarie admitted that Hinchliffe's meetings with KPMG personnel breached internal conflict protocols, leading Macquarie to rescind its audit award to KPMG in August 2026.

6.0 Analysis and Discussion

6.1 Parliamentary Committees as Upstream Producers of Public Visibility

Within contemporary democratic governance, public accountability can no longer be conceptualised as a static, linear pipeline of administrative disclosure and formal statutory sanction (Agyemang, 2024; Steccolini, 2026). Under conditions of pervasive public sector consultant dependency, democratic governments become epistemically dependent upon the multidisciplinary partnerships they are mandated to regulate (Mazzucato and Collington, 2023; Lucas et al., 2026). In this complex institutional terrain, parliamentary committees operate not merely as passive forums for legislative oversight, but as active 'upstream producers' and orchestrators of public visibility (Degeling et al., 1996; Steccolini, 2026). Within the Westminster system, legislative committees function as countervailing institutions that challenge the severe information and power asymmetries enabling Big Four accounting partnerships to engage in regulatory arbitrage and corporate secrecy (Jacobs and Jones, 2009; Baker and Free, 2026).

Parliamentary committees execute five interconnected democratic accountability functions. First, they reduce information asymmetry by compelling the disclosure of non-public corporate records. Second, they provide intense public visibility for systemic governance failures. Third, they

facilitate oversight of statutory regulators such as the Australian Securities and Investments Commission (ASIC) and the Tax Practitioners Board (TPB). Fourth, they enable systematic diagnosis of structural market distortions; and fifth, they provide a constitutional mechanism for translating public disclosures into legislative reform (Humphrey et al., 2009; Parker and Favotto, 2026). The PJCCFS played a decisive role in breaking corporate secrecy surrounding KPMG by deploying parliamentary privilege under Section 49 of the Australian Constitution (PJCCFS, 2026). Unlike judicial proceedings or internal corporate reviews, parliamentary committees provide a protected forum where evidence suppressed by non-disclosure agreements, employment contracts, or litigation threats can be presented safely to elected representatives, thereby transforming private corporate disputes into contestable public records (Sikka, 2008; Free, 2026).

6.2 Comparative Mapping

To explain how legislative bodies disrupt elite professional power, this study compares two distinct empirical pathways of engagement: the PwC tax confidentiality breach (2014–2024) and the KPMG audit tender and whistleblower controversy (2024–2026). Both pathways reconfigure power relations to produce 'accountability inversion', a temporary reversal of established asymmetric power dynamics wherein elite corporate advisors, customarily positioned as expert authorities, are compelled to publicly explain and defend their ethical conduct before legislative panels (Bovens, 2007; Steccolini, 2026). However, the information dynamics and institutional triggers structuring these two cases differ fundamentally.

Table 5: Comparative Mapping of Parliamentary actions in PwC and KPMG Accountability Pathways

Accountability Dimension	PwC Tax Leak Pathway (Accountability Amplification)	KPMG Whistleblower Pathway (Accountability Activation)
Initial Trigger and Source	Regulatory sanction by Tax Practitioners Board (TPB) and investigative media reporting.	Internal whistleblower disclosure on client board data misuse during audit tenders.

Information Sequencing	External regulatory sanction -> Investigative journalism -> Senate Estimates scrutiny.	Whistleblower disclosure -> Internal containment (Project Magenta) -> Parliamentary privilege activation.
Parliamentary Mechanism	Senate Estimates document orders and public hearings.	Parliamentary privilege speech (Senator) and PJCCFS 11-hour cross-examinations.
Media Dynamics	Recursive loop between investigative journalists (AFR) and Senate Estimates.	Direct parliament-driven media explosion; public recantations and formal apologies.
Procurement and Regulatory Result	Global restructuring; tax law amendments; Commonwealth procurement bans.	Executive resignations; ASIC formal investigation; bidding suspensions; Corporations Act reform.

6.3 Accountee-ability and Accountability Inversion

The KPMG activation pathway vividly operationalises Steccolini's (2026) theoretical construct of 'accountee-ability'. Accountee-ability describes a relational accountability mechanism where a legislative body empowers vulnerable insiders, who possess critical organizational knowledge but lack the legal protections, financial resources, and institutional standing to compel answers independently, to demand an account from elite corporate leadership (Steccolini, 2026; Parker and Favotto, 2026). When the KPMG audit director submitted internal disclosures on 30 May 2024 exposing client data misuse during audit tenders, KPMG executive leadership responded with covert laptop searches, threats of termination, and an internal containment review (Project Magenta) designed to insulate the firm from exposure. The whistleblower was powerless against the partnership's legal shields and non-disclosure mechanisms.

By granting the whistleblower a protected platform under parliamentary privilege, Parliament bypassed KPMG's corporate non-disclosure agreements and rebalanced the information asymmetry between the individual insider and the professional service partnership. This

intervention forced an 'accountability inversion' (Bovens, 2007). During the June and August 2026 PJCCFS public hearings, senior KPMG partners and legal counsel were subjected to hours of coercive cross-examination, culminating in public admissions that 'the truth was not told' during initial internal partner interviews and a formal public apology from incoming KPMG Chairman to Senator. Parliamentary privilege thus converted suppressed corporate knowledge into authoritative public evidence, stripping elite partnerships of their customary expert immunity.

6.4 Systemic Analysis: Guthrie's Critique vs. Taylor's 'GSA' Bad Apple Thesis

A critical theoretical contribution of this analysis lies in resolving the debate regarding the root causes of Big Four corporate governance failures. Writing in the *Australian Financial Review*, Emeritus Professor James Guthrie directly refutes Professor Stephen Taylor's argument that recurring scandals at KPMG and across the Big Four stem merely from an individual partner syndrome termed 'greed, stupidity, and arrogance' (GSA) (Guthrie, 2026b). Guthrie asserts that focusing on individual partner character flaws is dangerously incomplete because it ignores the systemic architecture that renders unethical conduct not only possible, but entirely rational within multidisciplinary partnerships (Guthrie, 2026b; Sikka, 2008).

Guthrie (2026b) demonstrates that the Big Four's integrated multidisciplinary business model prioritises partner profit distributions over public-interest ethical obligations, turning statutory audit watchdogs into commercial juggernauts driven by marketing mindsets. A central structural mechanism maintaining this is the 'secretive partner shield' under professional standards schemes, which caps partner liability at approximately \$1 million after insurance regardless of the financial damage caused. When a firm's legal liability is capped at a nominal figure while its commercial profit potential remains unlimited, greed ceases to be an individual moral defect and becomes an explicit business strategy (Guthrie, 2026b; Nikidehaghani et al., 2026). The real-world consequences are illustrated by the Macquarie Group audit tender controversy, where former KPMG partner and Macquarie director breached conflict protocols to help KPMG wargame its pitch for Macquarie's \$100 million-a-year audit contract and \$1 billion over a decade (Tadros and Moullakis, 2026).

Furthermore, Guthrie (2026b) highlights the systemic conflict of interest involving professional accounting bodies, such as Chartered Accountants Australia and New Zealand (CAANZ). In the New South Wales Supreme Court litigation brought by former KPMG partner-turned-

whistleblower Brendan Lyon, CAANZ estimated it was to spend \$460,000 attempting to block Lyon's challenge against liability caps, leading Justice Tim Faulkner to issue a protective costs order capping Lyon's exposure at \$25,000. All members of the Big Four are made automatic members of CAANZ. When a professional association spends nearly half a million dollars to stop a public interest whistleblower from challenging a liability shield, it operates as a protective shield for Big Four partners rather than a regulator defending the public interest (Guthrie, 2026b). Because Category 3 non-audit consulting generates 80 per cent (\$7.36 billion) of firm revenue, voluntary ethics training or incremental Treasury tweaks are completely ineffective; dismantling systemic rot requires mandatory structural separation (Guthrie, 2026b).

6.5 Conflict of Interest

Investigating the conflict of interest between statutory auditing and management consulting represents a crucial academic research endeavour because it lies at the structural intersection of political economy, democratic governance, corporate accountability, professional ethics, and regulatory design (Guthrie and Fels, 2023; Lucas et al., 2026). Statutory auditing functions as an indispensable public good designed to safeguard capital market integrity, lower the cost of capital, and protect millions of superannuation investors (Watts and Zimmerman, 1983; DeAngelo, 1981). However, this public mandate is executed by private commercial partnerships motivated by partner profit maximisation.

Academic research is vital for unmasking how multidisciplinary business models, shared profit pools, and cross-selling incentives systematically compromise auditor independence, leading to institutional capture and regulatory failure (Sikka, 2008; Shore and Wright, 2018). By critically evaluating these structural conflicts, scholars can move beyond superficial behavioural explanations ('bad apples') to analyse how structural incentive systems, liability shields, and regulatory spatial gaps enable commercial imperatives to override professional codes of ethics (Malsch and Gendron, 2011; Nikidehaghani et al., 2026). Furthermore, empirical academic inquiry provides the evidentiary foundation necessary to inform legislative reform, evaluate proposed policy options such as Treasury's Option (Mandatory Structural Separation), and safeguard democratic institutions against the unchecked expansion of the Big Four professional consulting power (Guthrie and Fels, 2023).

7.0 Options for Accounting and Auditing Regulation (IDEALS Framework)

7.1 Treasury Reform Options for Managing Structural Conflicts

In response to recurring governance scandals and systemic conflicts of interest across multidisciplinary accounting partnerships, the Commonwealth Department of the Treasury formulated a comprehensive consultative framework evaluating Category 2 policy options for audit reform (COA, 2026; Guthrie and Fels, 2023). Within the IDEALS policy evaluation framework (Dumay, 2024), this stage represents the 'Enumerate' and 'Assess' dimensions, systematically categorising and evaluating four regulatory options designed to manage structural conflicts between statutory audit duties and non-audit consulting commercial imperatives (COA, 2026). These options range from targeted service prohibitions on existing audit clients to radical international network breakups (COA, 2026; Guthrie and Fels, 2023). Table 6 details the key mechanisms, scope, and policy effectiveness of each Category 2 Treasury option.

Table 6: Summary of Treasury Category 2 Options for Managing Structural Conflicts

Option	Policy Description and Core Mechanism	Evaluated Policy Effectiveness
Option 2A: Service Prohibition	Prohibits audit entities from providing non-audit consulting services directly to their statutory audit clients.	Ineffective against systemic cross-subsidisation; preserves multidisciplinary profit pools and land-and-expand pressures.
Option 2B: Operational Separation	Enforces internal operational ring-fencing, separate management boards, and information barriers ('Chinese walls') between audit and consulting divisions.	Failed; internal operational walls are systematically breached by commercial growth imperatives and shared partner profit incentives.

Option 2C: Mandatory Complete Structural Separation	Mandates the complete legal, financial, and operational breakup of audit practices from multidisciplinary consulting, tax, and corporate advisory divisions.	Highly Effective; permanently eliminates multidisciplinary conflicts of interest, cross-subsidisation, and commercial tender manipulation.
Option 2D: Global Systemic Network Separation	Pursues coordinated international regulatory breakups across transnational Big Four network frameworks.	Impractical in short-to-medium term due to global regulatory fragmentation and jurisdictional coordination hurdles.

7.2 Evaluation of Option 2B

A critical analysis of Treasury Category 2 reform options reveals that voluntary self-regulation and internal operational separation (Option 2B) are fundamentally incapable of addressing systemic audit failure (Guthrie and Fels, 2023; Nikidehaghani et al., 2026). Option 2B attempts to establish internal 'ring-fencing' or 'Chinese walls' between statutory audit practices and advisory divisions while maintaining a single, integrated partnership structure with shared profit pools (COA, 2024). Proponents of Option 2B, predominantly Big Four leadership and professional accounting bodies such as CAANZ, argue that operational ring-fencing preserves the economies of scope and technical depth necessary for auditing complex multinational corporations while mitigating conflict risks (CAANZ, 2024; PJCCFS, 2026). However, empirical evidence drawn from the 2024–2026 KPMG whistleblower controversy and the earlier PwC tax leak affair proves that internal operational walls are systematically porous and easily bypassed (Lucas, Guthrie and Dumay, 2024; PJCCFS, 2026).

The fundamental flaw of operational separation lies in the economic architecture of the multidisciplinary partnership (Guthrie, 2026b). When audit partners and management consulting partners draw profit distributions from a unified partnership equity pool, commercial incentives naturally align toward maximizing total firm revenue rather than protecting audit independence (Sikka, 2008; Guthrie and Fels, 2023). In Australia, Category 3 non-audit advisory generates approximately 80 per cent (\$7.36 billion) of the Big Four's \$9.2 billion annual revenue, while

statutory audit accounts for merely 20 per cent (\$1.84 billion) (Guthrie, 2026). Within this economic structure, statutory audit is treated as a commercial loss-leader—a 'foot in the door' to cross-sell lucrative non-audit advisory services through aggressive 'land-and-expand' commercial growth strategies (Nikidehaghani et al., 2026). As demonstrated in the KPMG scandal, where senior partners improperly accessed confidential client board documents (Lendlease, Westpac, Dexus, Optus) to secure statutory audit engagements, internal operational ring-fencing fails to deter commercial tender manipulation when partner remuneration remains tied to firm-wide advisory growth (PJCCFS, 2026; Tadros and Moullakis, 2026). Furthermore, voluntary professional codes of ethics—such as the APESB 110 Code of Ethics for Professional Accountants, act as superficial self-regulatory shields that lack statutory enforcement mechanisms, allowing elite partnerships to absorb minor regulatory fines as negligible overhead costs of doing business (APESB, 2025; Sikka, 2008).

7.3 Recommended Policy

Grounded in the 'List Explicitly' element of the IDEALS framework (Dumay, 2024), this study concludes that mandatory complete structural separation (Option 2C) represents the only defensible policy choice capable of restoring public interest integrity to statutory auditing (Guthrie and Fels, 2023; Nikidehaghani et al., 2026). Under Option 2C, statutory audit practices must be legally, financially, and operationally severed from multidisciplinary management consulting, tax advisory, and corporate finance divisions (COA, 2026). Structural separation creates pure, stand-alone audit firms whose sole commercial purpose and legal mandate is the execution of objective statutory audit and assurance engagements (Guthrie and Fels, 2023). By legally prohibiting shared profit pools, cross-partner equity holdings, and internal referral commissions between audit and consulting entities, Option 2C permanently dismantles the financial incentives that drive cross-subsidisation and commercial tender manipulation (Nikidehaghani et al., 2026).

From a constitutional perspective, enacting Option 2C falls within the legislative power of the Commonwealth Parliament of Australia. The statutory framework for mandatory structural separation can be enacted under Section 51(xx) (the corporations power) and Section 51(xxix) (the external affairs power) of the Australian Constitution, amending Chapter 2M and Chapter 2D of the Corporations Act 2001 (Cth) (COA, 2026; Guthrie and Fels, 2023). Regulating audit entities through the corporations power ensures uniform national application across all statutory auditors

operating within Australian capital markets, removing the regulatory arbitrage previously exploited by private partnerships operating within protected 'spatial gaps' (Malsch and Gendron, 2011; Radcliffe et al., 2018). While critics argue that structural separation may reduce audit technical capacity, international evidence indicates that pure audit firms develop specialized technical expertise focused exclusively on financial reporting quality, free from the commercial pressures of advisory cross-selling (Guthrie and Fels, 2023; COA, 2026).

8.0 Conclusions and Policy Implications

8.1 Democratic Implications

The systemic governance breakdowns documented across the PwC tax policy confidentiality leak and the KPMG statutory audit tender and whistleblower controversy demonstrate the profound democratic risks inherent in public sector consultant dependency (Mazzucato and Collington, 2023; Lucas, Guthrie and Dumay, 2024; PJCCFS, 2026). Over four decades of NPM administrative reforms have systematically hollowed out internal state capacity, replacing public-sector administrative capability with private consulting expertise and creating an acute epistemic dependency on the Big Four multidisciplinary accounting partnerships (Guthrie, Andrew and Twyford, 2023; CPI, 2025). This structural dependency enables Big Four accounting firms to exploit an institutional 'spatial gap' (Malsch and Gendron, 2011; Radcliffe et al., 2018). Operating as private partnership structures shielded from the statutory corporate governance, board independence, and financial disclosure standards mandated for public corporations under Chapter 2M of the Corporations Act 2001 (Cth), the Big Four routinely subordinate professional ethics to commercial revenue targets (Guthrie, 2026; Nikidehaghani et al., 2026).

The empirical findings compiled throughout this study confirm that self-regulated partnership structures are fundamentally incompatible with public interest audit gatekeeping (Guthrie and Fels, 2023; Sikka, 2008). When accounting partnerships treat statutory audit as a commercial loss-leader, generating only 20 per cent (\$1.84 billion) of firm revenue while Category 3 non-audit consulting generates 80 per cent (\$7.36 billion), professional independence and technical audit quality are systematically compromised (Guthrie, 2026). As demonstrated in the KPMG scandal, where partners improperly accessed confidential client board documents (Lendlease, Westpac, Dexus, Optus) to win statutory audit engagements and subsequently deployed covert laptop surveillance against an internal whistleblower, multidisciplinary profit pools create invincible

commercial incentives that overwhelm voluntary professional codes of ethics such as APESB 110 (APESB, 2025; PJCCFS, 2026; ASIC, 2026).

8.2 Statutory Reform

From a policy perspective, restoring professional integrity, social license, and capital market confidence in the statutory audit function requires statutory intervention rather than superficial revisions to voluntary codes or incremental regulatory tweaks (Guthrie and Fels, 2023; COA, 2026). Applying the IDEALS policy evaluation framework (Dumay, 2024), this study proves that voluntary self-regulation and internal operational ring-fencing (Option 2B) fail to contain commercial 'land-and-expand' growth pressures because shared partner profit pools align commercial interests against audit independence (Nikidehaghani et al., 2026; Guthrie, 2026a). Mandatory complete structural separation (Option 2C) represents the only defensible statutory remedy capable of permanently eliminating multidisciplinary conflicts of interest (Guthrie and Fels, 2023; COA, 2026).

8.3 Theoretical Model of Parliamentary Accountability Activation

Beyond statutory policy design, this manuscript advances a novel theoretical model of parliamentary accountability activation to explain how legislative bodies reassert democratic control over elite professional service firms in a consultant-dependent state (Steccolini, 2026; Parker and Favotto, 2026; Baker and Free, 2026). When public sector agencies experience regulatory capture and functional blindness, traditional administrative oversight channels fail to detect or sanction corporate misconduct (Lucas, Guthrie and Dumay, 2024). Parliamentary committees operate as active 'upstream producers' of public visibility, deploying constitutional powers, specifically parliamentary privilege under Section 49 of the Constitution and coercive witness cross-examination—to extract internal records, unredacted whistleblower communications, and forensic audit logs that are legally shielded within corporate channels (PJCCFS, 2026; Sikka, 2008).

Through the dual mechanisms of 'accountability amplification' (PwC) and 'accountability activation' (KPMG), legislative committees transform suppressed corporate knowledge into contestable public evidence (Baker and Free, 2026; Steccolini, 2026). This process operationalises 'accountee-ability' by providing a protected constitutional platform for vulnerable corporate whistleblowers, enabling them to compel answers from elite corporate leadership (Steccolini,

2026). The resulting 'accountability inversion' reverses established power asymmetries, forcing elite partnerships to justify their ethical conduct publicly, undergo executive resignations, face bidding suspensions, and submit to formal statutory regulatory investigations (Bovens, 2007; COA, 2026; ASIC, 2026). This theoretical model positions legislative committees as indispensable countervailing institutions for safeguarding democratic sovereignty against oligopolistic professional power (Parker and Favotto, 2026).

8.4 Avenues for Future Accounting Research

To extend the theoretical and empirical insights established in this study, critical accounting scholarship should pursue four promising avenues for future research.

First, Transnational Operationalisation of Structural Separation: Future comparative empirical studies should investigate how global accounting networks (PwCIL, KPMG International, EY Global, Deloitte Touche Tohmatsu) navigate divergent national regulatory mandates. Research should compare Australia's proposed structural breakup under Option 2C with the United Kingdom's operational separation framework to evaluate regulatory arbitrage, global network resilience, and profit-sharing reallocation across international jurisdictions (Guthrie, Dumay and Ricceri, 2024a; Treasury, 2024).

Second, Audit Market Concentration and Mid-Tier Competition: Scholars should critically analyze the long-term impact of mandatory structural separation and firm rotation on audit market concentration. Research should examine whether legally detaching audit entities from consulting enables mid-tier accounting partnerships (such as BDO, Grant Thornton, or PKF) to capture market share, disrupt Big Four oligopolistic dominance, and improve technical audit quality across mid-cap capital markets (Guthrie and Fels, 2023; PJCCFS, 2020).

Third, Empirical Inquiries into Whistleblower Accountability: Researchers should extend the 'accountability' theoretical framework (Steccolini, 2026) to examine the legal, psychological, and organizational experiences of corporate whistleblowers within professional service partnerships. Empirical studies should evaluate how internal corporate containment strategies (such as law firm

reviews like 'Project Magenta' and non-disclosure agreements) interact with statutory whistleblower protection frameworks under the Corporations Act (PJCCFS, 2026).

Fourth, Digital Automation, AI Algorithms, and Audit Governance: Future accounting research should explore the emerging digital frontier of audit quality and independence. Scholars should investigate how automated audit algorithms, generative artificial intelligence tools, and proprietary client data repositories reconfigure audit independence, data security, and client confidentiality in multidisciplinary engagements, examining whether algorithmic audit tools introduce new forms of calculative governance and spatial opacity (Sardesai et al., 2026b; Lucas et al., 2026).

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