

CPA Australia Independent Review

Final Report

30 November 2017

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This Report has been prepared for CPA Australia in accordance with the Terms of Reference dated 3 July 2017 and available at:

https://www.cpaaustralia.com.au/~/_media/corporate/allfiles/document/announcements/terms-of-reference-v2.pdf?la=en.

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1 Glossary of key terms

Term used in report	Definition for the purposes of this report
Members	Includes current members of CPA Australia from all categories of membership, including members on Representative and Divisional Councils and volunteer members
Divisional Councils	The group made up of the elected members of Divisions and Branch Councils
Divisions	Includes the geographical areas marked as Divisions and Branch Councils
Presidents	Elected Presidents of Divisional and Branch Councils
Stakeholders	Includes employees of CPA Australia, relevant organisations who partner with CPA Australia, education institutions such as universities that CPA Australia partners with for business development and employers of current and future members of the designation
Review Panel	The Independent Panel constituted for the purposes of this Review – see Appendix A
Corporate Plan	The CPA Australia Corporate Plan 2015 – 2019
Submissions	Submissions received for the purposes of this Review from: members and staff through the survey tool; Divisional Councils through formal written submissions; and members through direct communication to the Review Panel
KMP	Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity
In-camera	A legal term that means in private
Preliminary Report	The CPA Australia Independent Review Preliminary Report, 14 September 2017
Preliminary Findings	The findings set out in the Preliminary Report
Preliminary Recommendations	The recommendations set out in the Preliminary Report

2 Executive summary

Introduction

CPA Australia Limited (subsequently referred to as CPA Australia) is a significant membership based organisation in Australia and within the global accounting profession. In October 2017, it had some 162,750 members based in 120 countries and a forecast annual revenue for 2017 of \$178.4m. Its membership includes public practitioners, members working in industry, academia, the public and not for profit sectors, and associate members who are studying accounting, a related discipline or for their CPA qualification. The core services CPA Australia provides to members are accreditation, education, training, technical support and advocacy.

Members reasonably expect CPA Australia to exhibit sound approaches to governance and service delivery in furthering the organisation's goals and aspirations. This reflects not only the standards generally expected of professional accountants in discharging their responsibilities in the public interest, but the pride members have in their profession.

The Review

Against the background of a range of concerns expressed by members and escalating negative media reports, on 3 July 2017 CPA Australia released Terms of Reference¹ and named members of an Independent Review Panel (the Review Panel) and an expert governance adviser. The Review Panel was asked to consider a range of claims that have tarnished the reputation of CPA Australia.

The Review Panel has applied judgement on how it considers these claims, generally conducting a review of each of the main identified areas of concern to assist the cohesion of the report rather than addressing claims on a case-by-case basis. The Terms of Reference also provided for the Review Panel to examine CPA Australia's Constitution, by-laws and policies to assess whether the current governance framework and policies of CPA Australia align with best practice and member expectations, and to make recommendations for improvement.

The scope of this Review includes five topic streams and areas of activity at CPA Australia. These are:

1. Governance.
2. Remuneration.
3. Marketing strategy and expenditure.
4. Strategy and performance of member services and engagement.
5. Strategy and performance of CPA Australia Advice.

The Final Report has been prepared for the members of CPA Australia and its Board and will be made public. The Board will need to consider the recommendations and decide on the appropriate response and the nature, sequencing and resourcing of implementation. The Review Panel is aware that a number of the recommendations, such as changes to the Constitution, will need member support at an AGM. Notwithstanding this, the Review Panel encourages the CPA Australia Board to consult widely and openly with the membership around all of the recommendations. In many cases, the Board has already commenced changes that are consistent with these recommendations.

¹ See Appendix A.

During the course of the Review, some members have asked whether certain decisions of the former Board(s) of CPA Australia give rise to any further action. As explained in Section 4.3 of this report, this Review was not a forensic review designed to draw such conclusions or develop evidence for the purpose of any legal action.

Preliminary Report

In undertaking its review, the Review Panel developed a Preliminary Report which was circulated to members and the public through the review website on 14 September 2017. The Preliminary Report outlined preliminary findings and preliminary recommendations that addressed the terms of reference of the Review. To develop the Preliminary Report, the Review Panel undertook consultation, research and analysis to build an evidence base within each stream of work. The Review Panel:

- Consulted with members of CPA Australia and its key stakeholders.
- Reviewed internal CPA Australia documents and data.
- Researched a number of comparable organisations.

The Review Panel provided its Preliminary Report to the Board and members of CPA Australia on 14 September 2017. The findings of the initial report included that:

- The former Board received a range of negative comments from respondents due to its role in sanctioning and overlooking the strategies that have caused damage to the CPA Australia brand.
- The former Board and the then CEO lost touch with a large cohort of the membership of CPA Australia, particularly (but not exclusively) public practitioners.
- Communication, as well as strategic and operational direction, was seen as one-way: from the top down, with little interest in genuine engagement with the membership base.
- Under pressure, the Board and CPA Australia commonly defaulted to the minimum standard of disclosure in response to significant issues raised by members and the media, rather than giving emphasis to transparency and the likely interests of the membership.
- There was recognition that CPA Australia has grown in size, global footprint and revenue; has acted as an advocate for the accounting profession nationally and internationally; continues to provide a valuable range of professional development and networking opportunities for members; and has built profile and recognition as a strong brand despite the fallout from recent events.
- The former Board heard the messages towards the end of its tenure and had taken some positive steps to address some of the member concerns.

The Preliminary Report included 23 preliminary recommendations to indicate the direction that the Review Panel considered improvements should take, with final recommendations to be set out in this Final Report. In addition, the Preliminary Report referred to a range of measures taken by the previous Board to address some of the areas causing concern amongst members.

Final Report

This Report takes up where the Preliminary Report finishes, but has a stronger focus on the governance arrangements required to overcome the deficiencies in the current model. It explores some issues in further detail where members, stakeholders and/or the Review Panel considered this would be beneficial in the interests of providing greater transparency. It also refines the focus of the Preliminary Recommendations where required.

To develop the Final Report, the Review Panel has undertaken further examination into specific findings and tested the preliminary recommendations. Specifically, the Review Panel has:

- Consulted with members of CPA Australia and key stakeholders: over 21 group consultations, 16 detailed written submissions and more than 45 submissions recorded through the website.
- Obtained further information and evidence from CPA Australia staff members: undertaken discussions with key CPA Australia staff on practices, procedures and events within CPA Australia.
- Undertaken targeted research, including of a number of comparable organisations: research and analysis was undertaken to further fill gaps in the findings and develop evidence to support the final recommendations.

In this Report, the Review Panel has elaborated on the following key areas to provide further information:

- Changes to this year's nomination and appointment process for Directors of CPA Australia.
- The circumstances surrounding the extension of the former CEO's termination payment from one to three years' salary.
- The role and support provided by CPA Australia to Divisional and Branch Councils.
- Recent practice and formal structures that create links between the membership and the Board.
- Codes of conduct for interactions between members and staff.
- CPA Australia Advice's business case.

In most areas, the focus has been on developing approaches to strengthen the existing governance arrangements of CPA Australia to achieve better long-term outcomes going forward. The one area that continues to attract considerable concern relates to the circumstances and validity of the termination payment to the former CEO agreed to by the former Board – which the Review Panel considers excessive given that the size of the payment was well above any comparable benchmark. Further, the Review Panel is satisfied, and agrees with CPA Australia that the former CEO's termination payment was paid in accordance with CPA Australia's obligations, and that CPA Australia has no ability to recover the termination payment. The Review Panel has provided further information on these matters in Sections 6.2.2.1-6.2.2.3. The termination payment issue underlines the importance of the Board of CPA Australia taking into account not only accepted business norms in its decision-making, but also weighing its consideration of issues with an appreciation of the membership of CPA Australia and its reliance on many volunteers to advance the organisation's objectives.

The Review Panel has made 29 recommendations to enhance governance, remuneration and other practices of CPA Australia to recognise more strongly the membership basis of the organisation, without losing focus on the need for contemporary governance arrangements that are required for a significant national and international professional accounting body. Recommendations are directed to:

- Governance arrangements, in particular an enhanced model for appointing the Board that balances CPA Australia's character as a member-based organisation and its responsibilities under the Corporations Act, and broader principles of good corporate governance.
- The retention of an approach to Board member selection based on skills and experience, and a reduction in the maximum number of Directors from 12 to nine.
- An approach to the determination of Board and executive remuneration which appropriately recognises the complexity of roles, but also understands that CPA Australia is a member-based organisation.

- The need to give members a stronger voice in consideration of strategies employed and their execution.
- The need for marketing activities that differentiate CPA Australia and raise its profile, balanced with appropriate oversight and directed to the benefit of members.
- The importance of carrying out a post-implementation review of CPA Australia Advice to assess its past performance and settle its future.

These measures are collectively presented to provide for stronger governance, clearer and stronger communication channels within the organisation, and avoid the excesses of the past.

At the same time, the Review Panel has been mindful not to have the pendulum for reform swing too far so as to lose the significant benefits of past strategies which have been successful in building the strength of the CPA Australia brand and the growth in membership numbers and revenues. It remains important for CPA Australia to be run professionally, progressively and in a way that supports its members to deliver professional services and meet their responsibilities to a high standard. The organisation and its culture need to be attuned to these objectives, with the new Board showing the way.

CPA Australia and its membership have understandably been affected by the recent events which have been costly and detracted from the organisation’s standing as one of the leading accounting bodies in the world. The Review Panel in this Final Report has provided recommendations to enhance the governance arrangements of CPA Australia and give the membership of the organisation a stronger voice in the governance and direction of the organisation going forward.

Recommendations

The Review Panel’s recommendations for each chapter are set out in Table 1 below.

Table 1: Review Panel recommendations

Governance Recommendations		
No.	Recommendation	Further Detail
1.	Change the current Board composition and appointment model to strengthen a skills-based approach	<ul style="list-style-type: none"> • The Constitution to be changed to require a minimum of two Directors to be non-member Directors • The maximum number of Directors to be reduced from 12 to nine
2.	Change the Representative Council’s (proposed Appointments Council) composition to reduce potential Board influence	<ul style="list-style-type: none"> • A change in the name of the Representative Council to Appointments Council • A change in the powers of the proposed Appointments Council to focus on the appointment of CPA Australia’s Directors • Expansion of Appointments Councillors (formerly Representative Councillors) to include one representative from each geographical location that has a Division or Branch Council • Removal of additional representatives from larger Divisions on the basis that the proposed Appointments Council exists to create a connection between members from different geographies and the mechanism to appoint the Board, rather than a body that reflects the membership’s composition

Governance Recommendations

- Removal of Board appointees from the Appointments Council, with the exception of the Chair of the Board, who would be a non-voting member of the Appointments Council
 - Appointment by the proposed Appointments Council of a Deputy Chair of its own number to assist the Chair
 - The ability to convene an in-camera session without the Chair of the proposed Appointments Council
 - Limitations on Appointments Councillors simultaneously acting as Appointments Councillors and Divisional or Branch Presidents
 - Appointments Councillors undertaking to observe the strictest standards of confidentiality with respect to nominee information
 - Appointments Councillors to be featured on the CPA Australia website
 - Secretariat support offered to the proposed Appointments Council
-
3. Change the Nomination and Remuneration Committee's composition and function
- The Nomination and Remuneration Committee to be split into two distinct bodies, the Board Nomination Committee and the Remuneration Committee
 - The Board Nomination Committee to act as a joint committee of the Board and the Appointments Council
 - Composition of the Board Nomination Committee to include two Board Directors, two appointees from the Appointments Council and two non-members
 - The Remuneration Committee to act as a Board committee
-
4. Modify nomination and appointment practices to give the Representative Council (proposed Appointments Council) greater oversight
- The Board Nomination Committee and Appointments Council encourage potential candidates of significant professional standing to apply for nomination
 - The Board Nomination Committee provides a framework for Board appointments to the Appointments Council for comment, prior to finalisation by the Board
 - The Board Nomination Committee develops the Board skills matrix and skills gaps assessment and provides it to the Appointments Council for comment, prior to finalisation by the Board
 - The Board Nomination Committee provides an update to the Appointments Council after the formation of the long and shortlist of candidates
 - All representatives from the Board Nomination Committee make themselves available to discuss shortlisted candidates with the Appointments Council prior to the Appointments Council's deliberation on the final candidates
 - A quorum of the Board Nomination Committee includes a Director, an appointee from the Appointments Council and a non-member committee member
-
5. Retain current Directors' terms, including number of reappointments
- Reappointment should be a rigorous process. In particular, a third term should only be granted where the candidate has strongly performed and weight should be given to the overall composition of the Board with emphasis on balancing the need for continuity with the need for continual refreshment of talent and thinking

Governance Recommendations

- | | | |
|-----|---|--|
| 6. | Increase the President's term from one to two years with potential for a third | |
| 7. | Continually review and improve the Board skills matrix and professional development | <ul style="list-style-type: none"> • The Board Appointment Committee should continually review CPA Australia's current skills matrix, performance assessment and continuing professional development requirements • The Board Nomination Committee develops the Board skills matrix and skills gaps assessment and provides to the Appointments Council for comment, prior to approval by the Board • The public call for applications should highlight the skills that are desired or are in short supply on the current Board, so that applicants are clear on what roles the CPA Australia's Board is seeking to fill • A similar skills-based approach is developed for CPA Australia's subsidiaries |
| 8. | Review the current executive structure | |
| 9. | Review approach to issues management | |
| 10. | Establish a Review Implementation Committee | |
| 11. | Ensure in-camera sessions are built into the Board's agenda | <ul style="list-style-type: none"> • Amendments to Board Charter to allow CPA Australia's Directors to consider issues without the CEO or executive management present |

Remuneration Recommendations

No.	Recommendation	Further Detail
12.	Amend CPA Australia's Constitution to clarify the position as to remuneration for CPA Australia's subsidiaries	
13.	Make changes to Board remuneration to align with member expectations and peer organisations	<ul style="list-style-type: none"> • Remove benchmarks to the Auditor-General's salary from the CPA Australia Constitution • Replace benchmark to the Auditor-General's salary with either a more appropriate benchmark, an indexed maximum for director remuneration, or a series of principles approved by CPA members • Continue remuneration benchmarking, but include member-based organisations in the comparators
14.	Set CEO remuneration to be competitive but comparable to similar organisations	<ul style="list-style-type: none"> • Benchmark CEO salary with comparable member-based organisations • Limit CEO notice periods to be conservative • Have a linkage between CEO salary and a balanced scorecard of organisational metrics

Remuneration Recommendations

- | | | |
|-----|---|---|
| 15. | Balance attractiveness and comparability to set senior executive remuneration | <ul style="list-style-type: none"> • Make the Nomination and Remuneration Committee (proposed Remuneration Committee) responsible for recommending KMP and senior executive salaries Continue remuneration benchmarking, but include member-based organisations in the comparators |
| 16. | Disclose individual KMP remuneration to improve transparency to members | |

Marketing Recommendations

No.	Recommendation	Further Detail
17.	Align marketing investments with an appropriately set corporate strategy and execute accordingly	<ul style="list-style-type: none"> • Develop a consolidated marketing strategy that fits within the corporate strategy so that marketing investments are directed towards achieving the overall organisations' goals • Identify key performance metrics for all significant marketing investments and processes to track, measure and report on these over time • Implement periodic reviews of brand equity to ensure long-term brand building investments are achieving target performance metrics and the pursuit of strategic objectives
18.	Maintain marketing activities that differentiate CPA Australia, with proper oversight and caution	<ul style="list-style-type: none"> • Strengthen the business case development process for large scale and prominent marketing activities to include a proper focus on risk identification and mitigation
19.	Centre future brand building activities on CPA Australia and its members rather than individual employees	<ul style="list-style-type: none"> • Have CPA Australia as the master or primary brand for all marketing activities and assets • CPA Australia brand and brand building activities to reflect the diversity of the organisation and its membership • Personalisation of branding to generally be avoided
20.	Develop and assess marketing activities based on an identified value proposition to all member segments	<ul style="list-style-type: none"> • Assess marketing investments based on a distinct value proposition to each member segment, building on the journey mapping processes currently underway
21.	Utilise existing engagement mechanisms to ensure members better understand marketing strategies and activities	<ul style="list-style-type: none"> • Utilise existing engagement mechanisms to ensure members better understand the marketing activities, investments and their rationale, with a focus on innovative activities that depart from expected practice • Continue to treat specific marketing activities as operational decisions for CPA Australia with appropriate commercial confidence and sensitivity

Marketing Recommendations

22. Review the organisation structure of marketing related business units to improve effectiveness and oversight

Member Engagement Recommendations

No.	Recommendation	Further Detail
23.	Establish a Council of Presidents to improve member ability to engage meaningfully with the Board on CPA Australia's strategy	<ul style="list-style-type: none"> Establish a Council of Presidents (Divisional and Branch) to provide advice to the Board on strategic issues and opportunities in an ongoing way with an emphasis on sharing the views and preferences of the membership (not just for the development of the 3-year Corporate Plan) Set the responsibility of the Council of Presidents to engage in two-way discussions with Divisional and Branch Councils and the CPA Australia Board Set the composition of the Council of Presidents to include all Divisional and Branch Council Presidents Set a mechanism for the Council of Presidents to self-select its Chair
24.	Enable Divisions and Divisional Councils to better engage with members	<ul style="list-style-type: none"> Explore options to link members in all locations with an existing Branch or Division to ensure representation in currently unrepresented geographies. Such options should take into account the cost implications that can flow from the international locations of some members Support the Divisions, Branches and Divisional and Branch Councils to have more flexibility to engage with members through: increased consultation in the development of Divisional/Branch engagement plans and budgets; providing some more flexibility to General Managers to access resources to respond to member engagement opportunities that arise; and a protocol that defines how Divisional Councils (through and with General Managers) can communicate with members Create a digital presence (on the CPA Australia website or other channel) for members to follow activities and opportunities in their Divisions that they can engage with on an opt-in basis
25.	Make Annual General Meetings accessible to all members	
26.	Update CPA Australia's codes for appropriate behaviour by members and staff	<ul style="list-style-type: none"> CPA Australia develops guidance that clearly states that the Professional Conduct provisions in the Constitution apply to conduct directed at staff and to one another CPA Australia also clearly states in the guidance the types of member conduct towards staff and one another that are considered derogatory to members or CPA Australia, or are unethical CPA Australia reviews its Volunteer Code of Conduct and staff codes of conduct for consistency, with a focus on members

Member Engagement Recommendations

27. Periodically review costs of member services and how membership value is communicated

CPA Australia Advice Recommendations

No.	Recommendation	Further Detail
28.	Carry out a comprehensive post-implementation evaluation of CPA Australia Advice	
29.	Develop a skills matrix for CPA Australia Advice's Board	

Cost and resourcing implications from the Review

The Final Report's recommendations have been developed and finalised with cost and the financial sustainability of CPA Australia in mind.

The Review Panel has provided judgement with regard to the recommendations' added cost, resourcing and financial sustainability, individually and as a package. The most significant items of additional cost will likely flow from support costs for the Council of Presidents, costs associated with the new nomination and appointment process (including the role of the Appointments Council), and costs for the post implementation review of CPA Australia Advice. The most significant cost savings will potentially flow from a reduced number of Directors, reviewed Director fees and KMP salaries, and more targeted marketing expenditure.

In addition, the Review Panel has been conscious of the reliance of CPA Australia on its many members who contribute in a voluntary capacity to the organisation. While some of the Review Panel's recommendations do envisage a greater role for some, the Review Panel has sought to limit the additional demands on volunteer members where practicable.

3 Acknowledgments

The Review Panel would like to express its gratitude to all those who made the time and effort to engage with the Review Panel and offer their insight into the governance, remuneration, marketing and other matters covered by the Terms of Reference towards the development of the Preliminary Report and this Final Report. The Review Panel would like to particularly acknowledge the consultation, engagement and insights offered by the Divisional Presidents Group, which provided a rich source of input to this report and guidance on the development of the final recommendations. We would also like to thank those CPA Australia members, staff and other stakeholders that attended stakeholder consultations and provided submissions. The information and insights provided, as well as other support during the preparation of the Preliminary and Final Report, were invaluable.

Additional information regarding face-to-face and online submissions is provided in Appendix B.

We would also like to thank Nous Group, which has provided secretariat services and has contributed significantly to the development of the Preliminary Report and this Final Report, and Professor Andrew Clarke of Victoria University, who provided additional expert advice.

4 Introduction

This chapter introduces CPA Australia and the background to this Review.

4.1 CPA Australia

CPA Australia is a member-based accounting body that delivers services to its members and represents the views and concerns of members and the profession. CPA Australia is also an incorporated body that, due to its size and turnover, as well as the fact that it holds a financial services licence, needs to meet numerous compliance requirements, including to ASIC under the Corporations Act. It plays an important national and global role in the accounting profession, which accepts a responsibility to act in the public interest. CPA Australia is the fifth largest accounting body globally by number of members.²

As part of its role as a professional association, CPA Australia supports numerous organisations in order to further the advancement of the profession both in Australia and internationally. In Australia, this includes the Australian Accounting Standards Board (AASB), Auditing and Assurance Standards Board (AUASB), and the Australian Professional and Ethical Standards Board (APESB). International organisations include the International Federation of Accountants (IFAC), the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI).

CPA Australia's members and staff contribute to these organisations through roles on committees, input into policy and whitepapers and engagement in the activities of these organisations. CPA Australia holds a place on the council of the IIRC, is a member of the IIRC Business Network and is a member of the GRI Gold Community.

CPA Australia's vision is "CPA Australia is known for being the world's best member service organisation"

CPA Australia's Corporate Plan 2015 – 2019 outlines its vision, mission and strategic objectives. These are outlined below.

CPA Australia Corporate Plan 2015 – 2019

Vision: *CPA Australia is known for being the world's best member service organisation*

Goal: *To maximise the share of people who want a career built on professional accounting skills*

Objectives:

- Driving the world's best member engagement and service.
- Delivering a world class CPA program and Certification.
- Providing access to knowledge.
- Leveraging our brand and broadening the audience.
- Securing the next generation of talent.

² IFAC

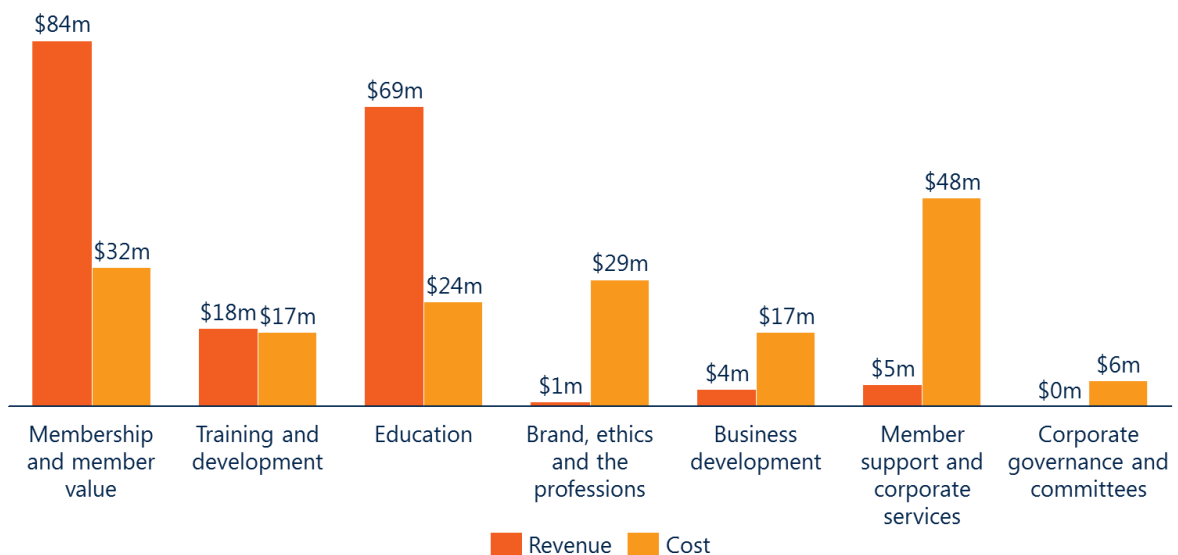
CPA Australia is an organisation of significant scale with annual revenues over \$180 million³ and 530 professional staff⁴

CPA Australia’s revenue and expenses are divided into seven business segments that mirror the actions and activities of the organisation. These business segments are:

- *Membership and member values* – responsible for delivery of the membership offer.
- *Training and development* – development and delivery of professional development products.
- *Education* – development and examination of the CPA Program and Public Practice Program, as well as the development and delivery of the practical experience requirement.
- *Brand, ethics and the profession* – manage and develop the brand, promotion, policy, research, advocacy and government relations.
- *Business development* – create meaningful and effective relationships with employers, recruiting agencies, academics and others in the higher education sector in order to convert awareness of CPA Australia into new members.
- *Member support and corporate services* – provide internal support to the organisation.
- *Corporate governance and committees* – the activities associated with the Board, committees, Representative Council, Secretariat, Internal Audit and Divisional Councils.

Figure 1 shows the 2016 revenue and expenditure for each segment.

Figure 1: 2016 business segment revenue and cost⁵



³ All data includes the most up to date annual data for the year 2016.

⁴ Includes full-time, part-time and casual staff.

⁵ CPA Australia, *Annual report (2016)* <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

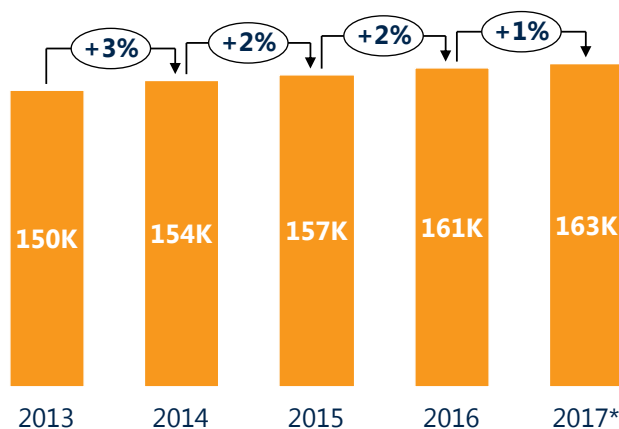
CPA Australia has a large and diverse membership base

As of November 2017, CPA Australia had reported some 162,750 members. These mainly consist of professionals in industry and commerce, public practitioners and 45,730 student members who are studying for their CPA qualification. The largest age cohort in the membership body is 30-39 years, which accounts for 33% of members.

CPA Australia members are based in 120 countries. The sphere of operations covers staffed and unstaffed offices in all Australian states and territories, China (including Hong Kong SAR, Macau and Taiwan), Fiji, Indonesia, Malaysia, New Zealand, Papua New Guinea, Singapore, the United Kingdom and Vietnam.

CPA Australia's membership has grown 2-3% per annum since 2013, but recent events and negative media reports may have affected growth in 2017.⁶ Its annual membership numbers are outlined in Figure 2.

Figure 2: CPA Australia membership, 2013-17⁷



*Note that 2017 data is current to November.

CPA Australia has three different types of membership depending on members' qualifications and seniority:

1. **Associate members (ASA)** – aimed at those who are undertaking the CPA program (28% of members).
2. **CPA members** – aimed at those who hold a degree recognised by CPA Australia in any discipline or who have completed the CPA program (64% of members).
3. **Fellow of CPA Australia (FCPA) members** – aimed at CPA members with at least 15 years in full-time work in accounting, finance or business (including at least five years in an executive position or as a public accountant (8% of members).

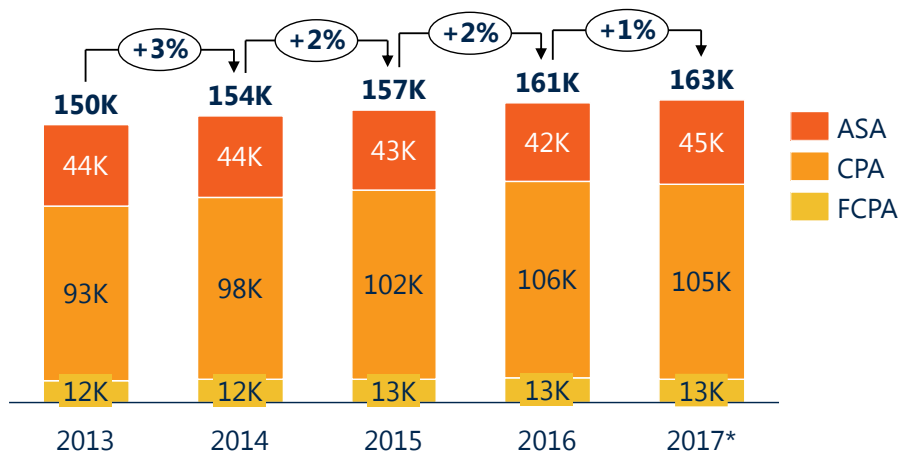
CPA and FCPA members are eligible to vote at meetings of members.⁸ Figure 3 outlines the proportion of CPA Australia's membership by membership type.

⁶ CPA Australia, *Annual reports (2011-16)* <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

⁷ Data provided by CPA Australia.

⁸ Data provided by CPA Australia.

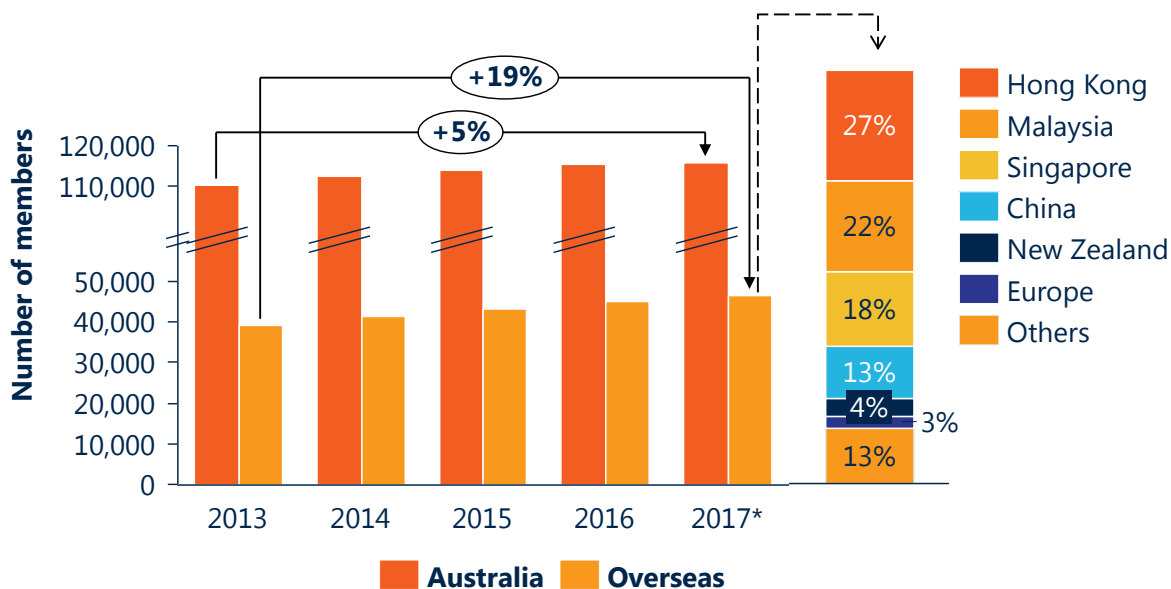
Figure 3: CPA Australia membership by type of member, 2013-17⁹



*Note that 2017 data is current to November 2017.

For the five years to 2017, CPA Australia’s overseas membership numbers grew faster on a percentage basis than the Australian membership (albeit from a lower base).¹⁰ The majority of CPA Australia’s overseas members are based in Asia, with the top four countries being Hong Kong (27% of overseas members in 2017), Malaysia (22%), Singapore (18%) and mainland China (13%). Figure 4 outlines the percentage growth in CPA Australia’s domestic and international membership and the breakdown of international membership by country for 2017.

Figure 4: Comparison of growth rates for domestic and overseas members



*Note that 2017 data is current to November 2017.

⁹ Data provided by CPA Australia.

¹⁰ Data provided by CPA Australia.

CPA Australia delivers education, training, technical support and advocacy

Member services are the core activities that CPA Australia undertakes. They are also the primary activities that are designed to provide members with value for money from their investment in a CPA Australia membership. The major member services that CPA Australia provides are summarised below:

- **Education**¹¹ – CPA Australia delivers the CPA Program to accredit young professionals and students.
- **Training**¹² – Members are required to undertake ongoing training to retain the CPA designation. CPA Australia delivers ongoing training through courses, conferences and events, and executive education. Courses are delivered in-person and online.
- **Technical support**¹³ – CPA Australia provides technical support¹³ to its members.
- **Advocacy**¹⁴ – CPA Australia advises on policy development and provides thought leadership.

4.2 Terms of Reference

On 16 June 2017 the Board of CPA Australia announced an independent panel to conduct a review of claims raised by members and other stakeholders.

The objective of this Independent Review is to ensure that the claims that impact the reputation of the organisation, the value of the organisation and the confidence of members are properly reviewed and addressed. The Review Panel has applied judgement on how it considers these claims, generally conducting a review of each of the main identified areas of concern to assist the cohesion of the report, rather than addressing claims on a case-by-case basis.

The identified areas of concern are as follows:

- Governance, including election of directors, term limits, independence of the Representative Council and compliance.
- Remuneration, including disclosures, compliance with laws and accounting standards and benchmarking processes.
- Marketing strategy and expenditure, including consistency with Board approved strategy and appropriateness of expenditure.
- Other matters the Review Panel determined to be appropriate, including the strategy and performance of member services and engagement, and the strategy and performance of CPA Australia Advice.

The Board of CPA Australia had requested and the Review Panel delivered a Preliminary Report on Friday 15 September 2017 through the review website. The Preliminary Report was issued on 14 September 2017. The timing for the Final Report was to be subject to decision by the Review Panel. The Review Panel planned to submit its Final Report to members by December 2017.

¹¹ CPA Australia Limited, *Become a CPA*, <<https://www.cpaaustralia.com.au/become-a-cpa>>.

¹² CPA Australia Limited, *Training and Events*, <<https://www.cpaaustralia.com.au/training-and-events>>.

¹³ CPA Australia Limited, *CPA Australia 2016 Integrated Report*.

¹⁴ CPA Australia Limited, *Centres of Excellence*, <<https://www.cpaaustralia.com.au/member-services/centres-of-excellence>>.

The Review Panel is chaired by Ian McPhee AO PSM, with panel members Su McCluskey and Maryjane Crabtree. Professor Bob Baxt AO acts as expert advisor on governance. Mr McPhee and Ms McCluskey are members of CPA Australia. Professor Baxt and Ms Crabtree are not members.

The full terms of reference for the Independent Review are included at Appendix A.

4.3 Review approach

This Report has been developed in two stages

The Review Panel's methodology was to conduct the review across two stages of work:

1. **A Preliminary Report** – The Review Panel undertook engagement, research and document review to develop preliminary findings and preliminary recommendations that address the terms of reference.
2. **A Final Report** – The Review Panel undertook further engagement to test and seek feedback on the preliminary recommendations and undertook further examination to update findings to develop final findings and recommendations that address the terms of reference.

The Preliminary Report process used four concurrent streams of work

The Review Panel's process used four concurrent streams of work:

1. Gain an understanding of the governance framework and organisational arrangements.
2. Engage with members and key stakeholders.
3. Undertake desktop research.
4. Analyse evidence, and develop and draft preliminary recommendations.

The Final Report process was built on the Preliminary Report

The Review Panel's process to develop the Final Report involved:

- Identifying areas in the Preliminary Report for further examination and analysis.
- Undertaking additional research and targeted consultation to complete the further examination.
- Engaging with members and key stakeholders to obtain feedback on the Preliminary Report and preliminary recommendations.
- Analysing feedback and the further information and developing and drafting final recommendations.

The Review Panel used clear criteria to assess the performance of CPA Australia

The criteria adopted to assess the performance of CPA Australia in discharging its responsibilities included whether:

- The requirements of the law and the Constitution of CPA Australia were satisfied.
- The high standards established by the Australian Securities Exchange (ASX) corporate governance guidelines and Australian Institute of Company Directors (AICD) governance principles, which CPA Australia states that it follows for governance and management, were applied.
- CPA Australia resources were well managed to achieve organisational goals.
- CPA Australia acted in the spirit of a member-based organisation.

The Review was conducted in accordance with *ASAE 3000 Assurance Engagements, other than Audits or Reviews of Historical Financial Information*. The Review is based on the Review Panel's understanding of the governance framework and organisational arrangements, engagement with members and key stakeholders, desktop research and subsequent analysis. The consideration and reporting of the information received necessarily provides only limited (and not audit-level) assurance in supporting the Review Panel's conclusions on the issues covered in the Terms of Reference.

The Review Panel provides an assessment of CPA Australia in the defined areas for the review with recommendations for moving forward. In some instances, information which has been provided to the Review Panel has not been disclosed in this report because it had not been otherwise publicly disclosed and was considered by the responsible party to be commercial-in-confidence and/or subject to third party contractual arrangements.

Against this background, it is important to understand that this review is not a forensic review, intended to provide legal advice or develop evidence for the purposes of any legal action. The Review Panel's remit was to ensure claims by members are properly reviewed and addressed and to make recommendations for improvement. CPA Australia pledged co-operation for that purpose, and the candour and cooperation given by the many stakeholders of the organisation was enabled by not having a focus on gathering evidence to establish legal liability. Further, the informality of the consultation process did not necessarily afford the participants all the elements of natural justice.

4.4 The Final Report

This Final Report summarises the Review Panel's final findings in relation to matters identified in the Terms of Reference. It presents its recommendations for CPA Australia in relation to those findings. The Report has separate sections to specifically address each of the following:

- Governance.
- Remuneration.
- Marketing strategy and expenditure.
- Strategy and performance of member services and engagement.
- Strategy and performance of CPA Australia Advice.

Each section has a common structure that outlines the progression of the Review Panel's findings, recommendations and conclusions throughout the review process while creating a largely standalone document. It gives a summary of the findings and preliminary recommendations from the Preliminary Report then presents the Review Panel's updated findings and recommendations. To access all the evidence, discussion and rationale it is necessary to read the Preliminary Report and the Final Report, which together contain the full content developed for the Review.

In the Final Report, the most up-to-date data is used where available. This includes 2016 complete data. Complete 2017 data is not yet available.

All quotes provided in this document have been de-identified. While all contributions were considered, only quotes sourced from submissions from a member group (e.g. Divisional Councils) or member submissions, where a member number was provided, have been used in the report.

5 Governance

This chapter summarises and updates the Preliminary Report's findings on CPA Australia's governance structures and practices. It also sets out the Review Panel's final recommendations in relation to governance issues raised in the Preliminary Report.

5.1 Summary of Preliminary Report

The Preliminary Report's findings on CPA Australia's governance were set out in Chapter 5 of the Preliminary Report. This section summarises the Preliminary Report's findings.

5.1.1 Background

Increasing corporate governance expectations

Over the last decade, there have been increasing expectations of corporate governance. The expectations of the community now call for a culture of compliance to be embedded in how an organisation conducts itself. The Code of Corporate Governance, considered by many as the benchmark of good corporate governance in Australia, seeks to promote eight central principles:¹⁵

1. Lay solid foundations for management and oversight.
2. Structure the Board to add value.
3. Act ethically and responsibly.
4. Safeguard integrity in corporate reporting.
5. Make timely and balanced disclosure.
6. Respect the rights of shareholders.
7. Recognise and manage risk.
8. Remunerate fairly and responsibly.

While the Code of Corporate Governance only directly applies to ASX-listed corporations, community organisations, sporting bodies, schools, universities, professional bodies and governments use or invoke the Code to benchmark their current practice.

Findings of previous governance review

CPA Australia's last significant governance review, carried out in 2006, suggested CPA Australia's governance arrangements required improvement to support efficient, consistently high-quality decision-making in a way that reflects the unique circumstances and characteristics of the organisation.¹⁶ It

¹⁵ ASX Corporate Governance Council (2014), *Corporate Governance Principles and Recommendations* (3rd Edition).

¹⁶ CPA Australia Ltd (2006), *Governance Review – Consultation Draft*.

was also suggested that CPA Australia's governance arrangements should contribute to a governance vision which:¹⁷

- Enables leadership of the profession and CPA Australia.
- Reflects the profession and CPA Australia's core values.
- Maintains policies and decisions' legitimacy.
- Supports achievement through staff and membership contribution.
- Meets the highest standards of governance.

The Review Panel considers these objectives remain sound today. As a highly-influential member-based organisation with members active in the business, government and not-for-profit sectors, CPA Australia's governance arrangements must operate at the highest standards. As noted in the earlier governance review, CPA Australia's governance arrangements will operate, and will be seen to operate at the highest standards where the governance arrangements:

- Have appropriate structures, processes and supports to meet governance needs.
- Are responsive and flexible to the internal and external environment.
- Are transparent in purpose and operation.
- Feature clear distinctions between decision-making, issues management and advisory roles.¹⁸

Current governance structures

At present, CPA Australia's Constitution establishes three governance bodies: the Board, the Representative Council and Divisional Councils. The Board is CPA Australia's governing body. It has overall control and management of CPA Australia, but has delegated some powers, duties and responsibilities to its committees, management, Divisions and disciplinary tribunals. The Representative Council appoints the Board. The Divisional Councils are advisory bodies, responsible for serving and representing members by connecting with the broader divisional membership base.

In addition to the governance bodies created by CPA Australia's Constitution, CPA Australia also has Board Committees, Advisory Committees and a member Compliance Committee.

Member and Divisional Council feedback on corporate governance structure and practices

CPA Australia's approach to governance has not met the expectations of a high proportion of members and Divisional Councils. Submissions and consultations on CPA Australia's governance highlighted concern over the appointment of governance bodies' office holders; influence of the Board on other governance bodies; the lack of transparency around Board conduct and decisions; and the possibility that directors had not been properly appointed or exceeded term limits.

¹⁷ CPA Australia Ltd (2006) *Governance Review – Consultation Draft*.

¹⁸ CPA Australia Ltd (2006) *Governance Review – Consultation Draft*.

5.1.2 Preliminary findings

The Preliminary Report made the following findings:

- CPA Australia's Constitution potentially gives the Board a high level of influence over the Representative Council.
- Appointment and reappointment of current Directors was in accordance with the Constitution.
- The Representative Council needs to have a more meaningful role in the appointment of Board Directors.
- The Board has taken steps to provide greater transparency in this year's nomination and appointment process.
- The Board was slow to respond publicly to issues that detracted from CPA Australia's standing.
- The Board should give greater emphasis to transparency in its decision-making, in recognition of CPA Australia's status as a member-based organisation.
- It would be good practice for CPA Australia's Board to have time during its meetings to explore issues or concerns, as appropriate, without management present (in-camera).

These findings are summarised below.

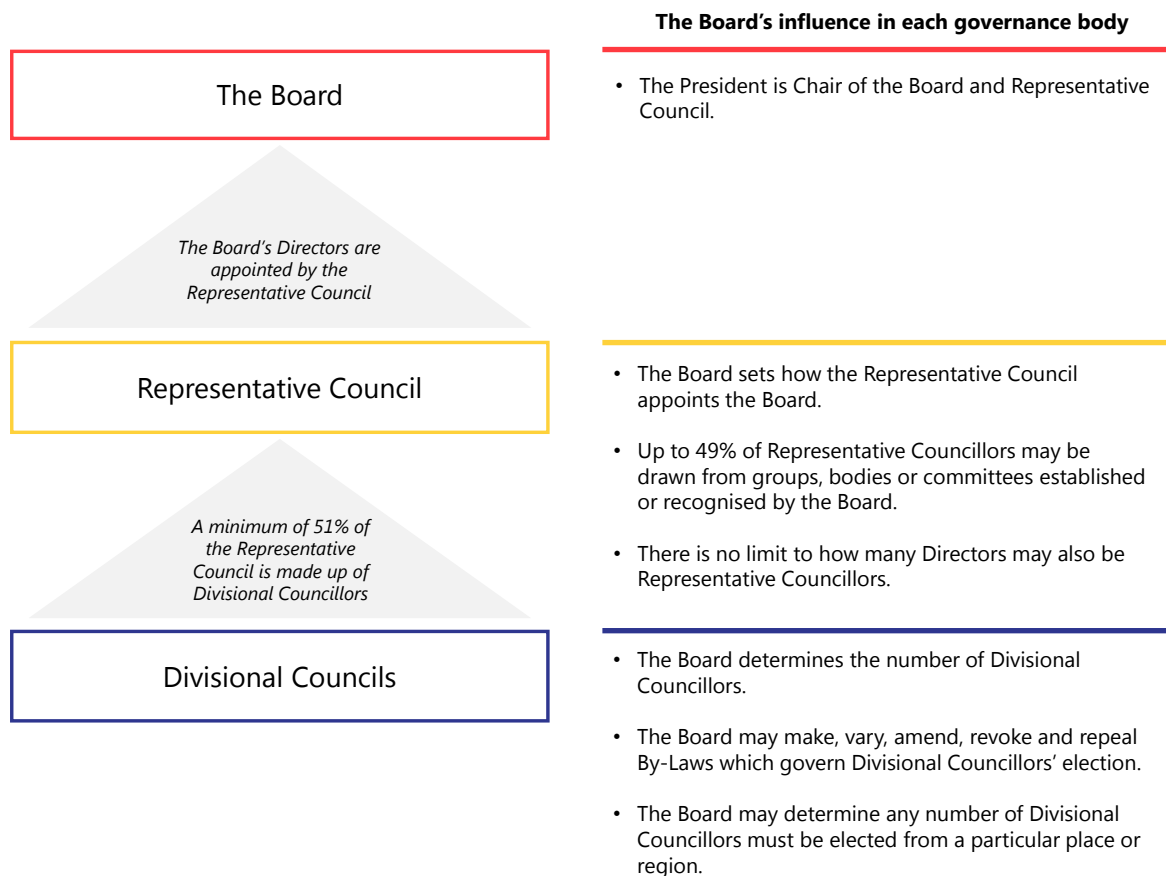
The Board's potential influence over the Representative Council and Divisional Council

Under the Constitution, the Board has a number of links to the Representative Council. These links potentially give the Board a high level of influence in the Representative Council's composition, and create a connection between the Board and the mechanism to appoint the Board.¹⁹ The Board's influence also extends to the Divisional Council's composition.²⁰ For example, the Board may determine that any number of Divisional Councillors must be elected from a particular place or region. These links are summarised and illustrated in the figure below.

¹⁹ *Constitution of CPA Australia Ltd*, Article. 58, 61(a), 61(d), 62(a), 62(d), 63(a).

²⁰ *Constitution of CPA Australia Ltd*, Article. 52(d), 65(a), 65(b).

Figure 5: Areas where the Board has influence over the Representative Council and Divisional Council(s)



Appointment of Directors

The Review Panel did not find any evidence to suggest the former Board's Directors had been appointed in a manner that contravened CPA Australia's Constitution. Concern that a number of Directors exceeded their allowable tenure related to interpretation of certain provisions in CPA Australia's Constitution, specifically:

- Article 44(e) allows Directors to be appointed for three consecutive terms.²¹
- Article 44(h) contains special arrangements relating to the Directors and Board following CPA Australia's organisational change in 2007.²² It applies to the exclusion of Article 44(e).²³
- Article 44(h)(i) and Article 44(h)(ii) have the effect of giving three consecutive terms for Directors appointed on 1 October 2007 or 1 April 2009.
- Article 44(h)(iii) has the effect of excluding any time served by a Director prior to 1 October 2007 for the purposes of calculating allowable tenure.

²¹ Constitution of CPA Australia Ltd, Article. 44(e).

²² Constitution of CPA Australia Ltd, Article. 44(h).

²³ Constitution of CPA Australia Ltd, Article. 44(h).

Ordinarily, under CPA Australia's Constitution, a Director is not eligible for reappointment where the reappointment would result in that Director having Directorship for more than 11 consecutive years.²⁴ The total effect of Article 44(h), however, is a Director may serve from 1 October 2007 to 30 September 2018.²⁵

The Representative Council's role in the nomination and appointment process

CPA Australia's Constitution gives the Representative Council power to appoint Directors. Specifically, the Representative Council appoints the Board by applying the election procedure prescribed by the Board.²⁶ Under the current procedure, the Representative Council is not the only body involved in the nomination and appointment process. In practice, the Review Panel understands the Nomination and Remuneration Committee works with an external executive search firm to vet applications, develop a shortlist, and interview shortlisted candidates. Based on this shortlist, the Representative Council is then asked to vote on behalf of members to appoint one or more shortlisted candidates. The Representative Council's role in appointing Directors and ensuring due process in voting on candidates is similar to equivalent bodies such as CA ANZ and AICD. However, the Review Panel is of the view that the Representative Council's involvement in the nomination and appointment process could be strengthened.

Transparency of the Board's nomination and appointment process

On the basis of extensive consultation, the Review Panel made a series of suggestions to the Chair of CPA Australia's Board regarding this year's Director nomination and appointment process. The suggestions were made by email on 14 August 2017. The purpose of these suggestions was to ensure this year's Director nomination and appointment process was as transparent as possible. The Chair of CPA Australia's Board provided a response to the Review Panel on each suggestion on 24 August 2017, largely agreeing with the Panel's suggestions.

The Board's issues management

The Board should have responded much earlier to issues raised publicly regarding CPA Australia's management, strategy and executive remuneration. Prominent publications reported on the former CEO's remuneration as early as February 2016.²⁷ There was extensive coverage on the AGM's location, executive remuneration and the views of disgruntled CPA members in March and April 2017, which continued into May and June 2017.²⁸ It is the Review Panel's view that CPA Australia's issues management response was less than adequate. The Review Panel, having had the benefit of seeing CPA Australia's Board papers and minutes, appreciates that there was much discussion at Board level about the media's treatment of certain issues. This discussion, however, did not translate into a timely public response or explanation.

Transparency of decisions and practices

A recurring theme across a number of submissions and consultations in the preparation of the Preliminary Report is the lack of transparency of certain strategic and tactical activities, such as CPA Australia's strategy and marketing activities. Member-based organisations have an obligation to ensure members' funds are

²⁴ *Constitution of CPA Australia Ltd*, Article. 44(h)(iii).

²⁵ Article 44(h)(iii) discounts time served under partial terms from allowable tenure. This allowed two former directors to discount service prior to 1 October 2007 from their permissible tenure.

²⁶ *Constitution of CPA Australia Ltd*, Article. 61(a).

²⁷ *Australian Financial Review*, 'Alex Malley's big life on CPA money' (3 Feb 2016), <<http://www.afr.com/brand/rear-window/alex-malleys-big-life-on-cpa-money-20160203-gmkxgu>>.

²⁸ See, for instance, *Australian Financial Review*, 'CPA finally announces its AGM ... in Singapore' (March 16 2017); *Australian Financial Review*, 'CPA Australia rebels get membership list, board remuneration coming' (27 April 2017).

used appropriately, in members' best interests. Accordingly, the Review Panel considered that CPA Australia Board decisions needed to be communicated to CPA members with a greater level of transparency.

Space for Board deliberation without management

CPA Australia's Constitution entitles the CEO to attend Board meetings, but does not give the CEO the right to vote.²⁹ The Review Panel understands that CPA Australia's former CEO attended Board meetings, often for the entirety of the Board meeting. It is good practice however, for a Board to be allowed time at meetings to deliberate without the presence of the CEO, other KMP or management. The AICD recommends in-camera sessions be built into the agenda for a company's non-executive directors to explore issues of concern or points of clarification without management's presence, prior to a Board meeting.³⁰ The Review Panel suggested CPA Australia's Board considers a similar arrangement so it can discuss CPA Australia's performance, strategy and other matters without the presence of the CEO, other KMP or management.

5.1.3 Preliminary recommendations

On the basis of the preliminary findings, the Review Panel made the following preliminary recommendations:

- The Representative Council's composition should be reviewed to ensure it is meeting the requirements of independence from the Board and reflecting diversity of CPA Australia's membership.
 - Consideration should be given to a Representative Council which:
 - Has a reduced number of Board-appointed representatives.
 - Allows the Representative Council to appoint Representative Councillors to act as the Representative Council's Chair and Vice-Chair.
 - Has a greater number of Representative Councillors, which represent CPA Australia's growth in Asia and New Zealand.
 - Maintains current tenure for Representative Councillors to reflect the benefits of members having experience in such a critical role for CPA Australia.
 - Has greater opportunity to offer guidance and advice to the Board.
- CPA Australia maintains Directors' three-year term but reconsiders the appropriate number of further terms:
 - Consideration should be given to:
 - Reducing the two further terms to one additional term.³¹
 - An exception to accommodate a potential appointment to President where additional runway is required.

²⁹ *Constitution of CPA Australia Ltd*, Article. 48(d).

³⁰ Australian Institute of Company Directors (2016) *Director Tools: Meeting Effectiveness – Board Meeting Agenda*.

³¹ The Preliminary Report contained an error on page 33, where it stated "reducing the three further terms to one additional term". This should read "reducing the further two terms to one additional term" and has been corrected here.

- Extending the circumstances under which a Director may serve more than one year as President.
- Change practices to allow the Representative Council to have timely and meaningful consideration of applicants:
 - Before the Representative Council meets to vote on shortlisted candidates, it should be given sufficient time to appraise itself of each candidate on the shortlist, including a CV and summary of relevant interview notes.
 - Provide the opportunity for representatives from both the Representative Council and Nomination and Remuneration Committee to brief the executive search firm at the start of the nomination process.
- The Board skills matrix and continuing professional development requirements should be kept under review for continuous improvement:
 - An evaluation of the current approach to skill assessment, and Directors' professional development.
 - Formal guidance for skill assessments in the Nomination and Remuneration Committee Charter.
 - A stocktake of desirable skills, experiences and attributes at Board level, and refinement of assessment criteria.
 - A periodic assessment and gap analysis of the Board's current skills, experience and attributes.
- There should be a Review Implementation Committee.
- CPA Australia should review its approach to issues management.
- There should be allotted time at meetings of Directors with no management present.

5.2 Updated findings

Since publication of the Preliminary Report, the Review Panel has heard from members and reflected further on the preliminary recommendations on governance structures and processes. The Review Panel's findings from these considerations are set out below.

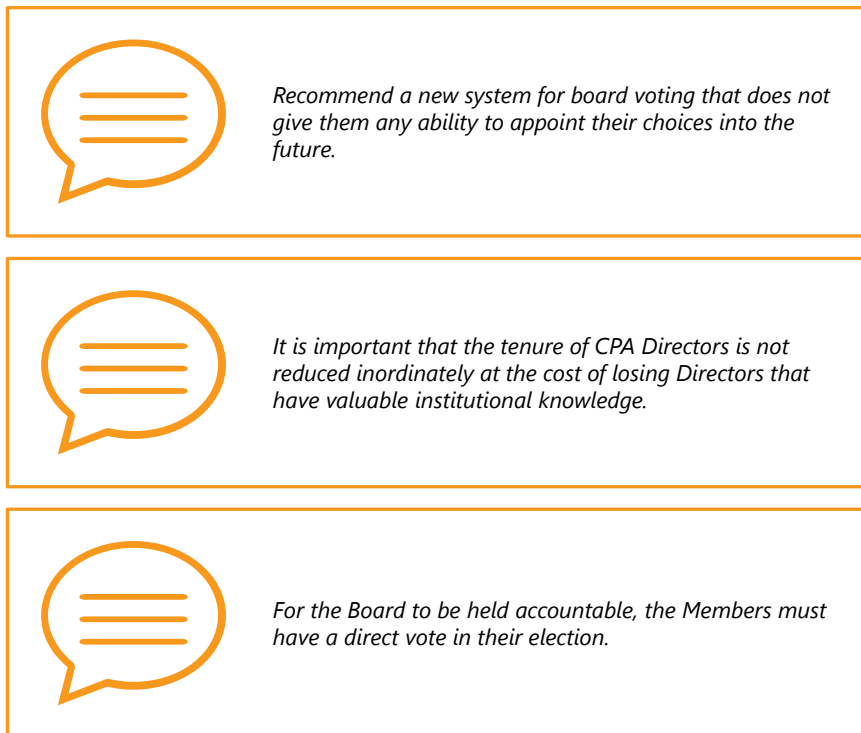
5.2.1 Member feedback

After the Preliminary Report's publication, the Review Panel received submissions from members and stakeholders on the Preliminary Report's findings and recommendations. In relation to governance, the following themes emerged:

- **The Board's potential influence over the nomination and appointment process.** Following on from the Preliminary Report's observations on this point, some members raised that the Board's perceived influence over the nomination and appointment process, including the Representative Council and Nomination and Remuneration Committee, needs to be addressed.
- **Direct elections.** Some members called for the entire Board, or at least some of the Board, to be directly elected by members. However, there were other members that expressed strong support for a skills-based Board.

- **Director tenure.** Some members raised the point that maximum tenure must be carefully considered, to balance experience and the need for fresh ideas and perspective.
- **Transparency on strategic direction and activity.** Some members are looking for the Board to make its decisions on strategic direction and strategic initiatives, and the rationale behind these, more visible to the membership.

A snapshot of qualitative feedback is set out below.



The image shows three callout boxes, each with an orange speech bubble icon on the left and a quote on the right. The boxes are stacked vertically and have an orange border.

Recommend a new system for board voting that does not give them any ability to appoint their choices into the future.

It is important that the tenure of CPA Directors is not reduced inordinately at the cost of losing Directors that have valuable institutional knowledge.

For the Board to be held accountable, the Members must have a direct vote in their election.

More than 80% of survey respondents agreed or strongly agreed with preliminary recommendations to continuously develop the Board's skills matrix and continuing professional development requirements and in-camera sessions in the Board agenda.

There was a diversity of views with respect to other preliminary recommendations, including:

- Changing the Representative Council's composition.
- Reconsidering the number of further Director terms.
- Changing the Representative Council's involvement in the nomination and appointment process.
- Reviewing CPA Australia's approach to issues management.
- Establishing a Review Implementation Committee.

5.2.2 Updates to findings

After the Preliminary Report's publication, the Review Panel conducted further examination and analysis into several areas of concern, including the nomination and appointments process, certain provisions within CPA Australia's Constitution and direct elections. The Review Panel also consulted with Professor

Andrew Clarke, Dean, College of Law and Justice, Victoria University. This section sets out the Review Panel's findings in relation to these areas, specifically, that:

- There were changes to the nomination and appointment process for this year's Director appointments.
- CPA Australia's executive structure concentrated executive power.
- Sections of the Constitution require review.
- There is a diversity of views on the Director appointment process.

Each of these is discussed in turn below.

5.2.2.1 There were changes to the nomination and appointment process for this year's Director appointments

In the Preliminary Report the Review Panel noted the nomination and appointment process had been subject to continuous improvement in recent years and recommended the measures set out in Table 1.

This year's nomination and appointment process sought to implement many of the measures suggested by the Review Panel in the Preliminary Report. Specifically, Representative Councillors were provided with information on shortlisted candidates a week before they convened. The Representative Council approved of the changes that had been made to this year's process, noting that this year's circumstances were abnormal. The Representative Council members expressed the view that this year's process was more consultative and they were, broadly, happy with the changes that had been introduced.

The Nomination and Remuneration Committee's composition was also changed for this year's nomination and appointment process. These changes included adding three committee members from outside CPA Australia.³²

In addition, other changes introduced in this year's nomination and appointment process include:

- Materials were made available electronically for the first time.
- The Representative Council's Board-appointed representatives resigned prior to deliberations on candidates.
- A teleconference line was established for Representative Councillors to have discussions in preparation for their meetings.
- Videos of shortlisted candidates were provided to the Representative Council.
- A representative from the Nomination and Remuneration Committee was available, before the Representative Council deliberated, to explain the process to date and the rationale behind certain candidates' inclusion on the shortlist.
- The Representative Council was chaired by the President of CPA Australia, who agreed to abstain from voting.

Several changes were particularly well-received by the Representative Council and Nomination and Remuneration Committee. These included:

- Materials were received ahead of time, with opportunity for consideration and discussion prior to formal deliberation.

³² CPA Australia Ltd (4 August 2017) *Announcement from the Board of CPA Australia*.

- The Representative Council was active in probing the Nomination and Remuneration Committee's selection.
- The external perspective of independent Nomination and Remuneration Committee members was valued.

However, the Representative Council, Nomination and Remuneration Committee identified a few residual issues. These included:

- Branch Councils are not individually represented as part of the Representative Council.
- Only two Representative Councillors had previous experience on the Representative Council, which meant there were some issues in terms of individual Representative Councillors fully understanding the process.

5.2.2.2 CPA Australia's executive structure concentrated executive power

In 2009, CPA Australia developed an internal discussion paper entitled *Defining the Role of the CEO*. The result of this paper was to make the CEO role more externally focussed, with a Chief Operating Officer (COO) assuming the organisation's day-to-day leadership. CPA Australia then appointed two COO roles: a COO Commercial and a COO Member Services. The role of the Company Secretary was performed by the COO (Commercial).

CPA Australia had formerly established an Executive Management Group comprised of the organisation's Executive Managers. This group had access to Board papers and Board minutes to facilitate implementation of Board strategy. This group was disbanded in 2012, under the former CEO, and replaced with the Business Effectiveness Leadership Team (BELT). BELT was a broader group of general managers that met 4-5 times a year to discuss business related matters. This meant that CPA Australia's Executive Managers could only obtain information relating to Board decisions from the former CEO and COOs, limiting visibility around the Boards decisions and strategic intent.

The Review Panel has examined the executive structures of a number of organisations, including corporations, professional bodies and member-based organisations. Of the organisations sampled, the Review Panel did not find an organisation that has an executive structure limited to a CEO and two COOs.³³ Common practice is to have a broader executive structure, with a single COO.

5.2.2.3 Sections of the Constitution require review

Through the course of its examination of CPA Australia's governance, the Review Panel has identified a number of provisions in CPA Australia's Constitution which have the potential to create undue Board influence, are outdated, ambiguous or may be open to abuse. These provisions include:

- Article 44(h), which contains transitional provisions which are now outdated.
- Article 44(i) sets an upper limit on the number of non-member Directors the Board may have.
- Article 45 is silent as to whether the relevant Directors fees attach to both CPA Australia and its subsidiaries.

³³ The Review Panel looked at the executive structures of ANZ, Suncorp Group, Western Water and Country Fire Authority (Victoria).

- Article 48(d) gives the CEO the right to attend Board meetings, but does not include a carve-out to allow the Board to discuss matters in-camera.
- Article 52(a)(ii) allows the Board to appoint the initial members of a newly-established Divisional Council.
- Article 62(a)(iii) and 62(b) allows the Board to appoint up to 49% of Representative Councillors from a body, group or committee of the Board.
- Article 65(b) allows the Board to determine that any number of Divisional Councillors must be elected from a specific place.

In the Review Panel’s review of CPA Australia’s Constitution, there were no provisions that spoke to removal of Representative Councillors. CPA Australia can have regard to fit-for-purpose provisions to remove Representative Councillors for misconduct (e.g. breach of non-disclosure agreement).

In addition, CPA Australia will need to map changes to by-laws and charters of relevant governance councils and committees.

5.2.2.4 There is a diversity of views on the Director appointment process

As outlined in Section 4.3, the Review Panel engaged with Divisional and Branch Councils to obtain their views on a range of matters, including nomination and appointment mechanisms. Through this, the Review Panel understands that four Divisional and Branch Councils support the direct election of some Directors to the Board of CPA Australia. By contrast, three Divisional Councils held strong views that there should not be direct elections of any Directors. The Review Panel expresses its views on direct election and makes its recommendation on Director appointments at Section 5.3.1.

5.3 Recommendations

Bringing together the Review Panel’s preliminary recommendations, stakeholder feedback and further research and analysis, the Review Panel makes the following recommendations, as set out in Table 2.

The Review Panel’s view is that these recommendations balance CPA Australia’s character as a member-based organisation, its obligations under the Corporations Act and broader principles of good governance. The effect of the below recommendations is to clearly delineate the role, composition and function of governance bodies (e.g. the Board, the Representative Council and the Nomination and Remuneration Committee) and member engagement bodies.

Table 2: Summary of recommendations that appear in this section

Governance Recommendations		
No.	Recommendation	Type
1.	Change the current Board composition and appointment model to strengthen a skills-based approach	New recommendation
2.	Change the Representative Council’s (proposed Appointments Council) composition to reduce potential Board influence	Affirmed from Preliminary Report, with added detail

Governance Recommendations

3.	Change the Nomination and Remuneration Committee's composition and function	New recommendation
4.	Modify nomination and appointment practices to give the Representative Council (proposed Appointments Council) greater oversight	Affirmed from Preliminary Report, with added detail
5.	Retain current Directors' terms, including number of reappointments	Affirmed from Preliminary Report, with added detail
6.	Increase the President's term from one to two years with potential for a third	Affirmed from Preliminary Report, with added detail
7.	Continually review and improve the Board skills matrix and professional development	Affirmed from Preliminary Report
8.	Review the current executive structure	New recommendation
9.	Review approach to issues management	Affirmed from Preliminary Report
10.	Establish a Review Implementation Committee	Affirmed from Preliminary Report
11.	Ensure in-camera sessions are built into the Board's agenda	Affirmed from Preliminary Report

These recommendations are set out in detail below.

5.3.1 Change the current Board composition and appointment model to strengthen a skills-based approach

Board composition

The Preliminary Report flagged potential changes to the Board's composition in addition to changes to Directors' terms and President terms. The Review Panel recommends the following changes to Board composition, to augment the Board's ability to recruit, appoint and retain Directors with the right skills and experience to support best practice governance in a changing landscape:

- Require a minimum of two Directors to be non-member Directors.
- Reduce the maximum number of Directors from 12 to nine.

Independence, defined by the ASX as "*independent of management and free of any interest, business or other relationship with the company that could interfere with their independent judgement*", is an important governance requirement.³⁴ It assists companies to demonstrate prudential oversight and allows a robust and curious mindset to be brought to Board meetings. The Review Panel recognises the importance of independence and recommends the Constitution set a minimum number of non-member directors.

³⁴ ASX Corporate Governance Council (2014). *Corporate Governance Principles and Recommendations*. 3rd Edition.

Board size reflects an organisation's size and complexity. While there is no ideal board size, literature suggests governance challenges are present where there are less than seven and more than 12 directors.³⁵ The AICD recommends around eight to 10 directors for large, complex businesses and between six and eight directors for smaller, less complex businesses. The Review Panel recommends that the maximum number of Directors be reduced from 12 to nine to bring CPA Australia in line with best practice.

Board appointment model

The Review Panel has heard and considered a number of appointment models for Directors. These have ranged from direct Board appointments to direct elections by shareholders or members, hybrid models consisting of skill-based appointees and directly elected directors or appointment by an electoral college. The Review Panel supports enhancements to the current approach of appointing a skills-based Board. It does not recommend Directors be directly elected by members.

The Review Panel is of the view that the proposed models for direct elections suffer from a number of deficiencies. These include:

- Incompatibility with a skills-based approach to Directorship.
- There is a risk that some members may place pressure on an elected Director to be a constituent representative.
- Disruption of the nature of the direct election process when a skills-based matrix or diversity criteria are applied to filter potential candidates to try and achieve a balanced and skills-based board. Such disruption brings it closer in style to an appointments process by an electoral body such as the Appointments Council.
- Historical low voter turnout in member-based organisations' direct election process.
- The time and cost impost of running direct elections alongside the current Representative Council model.
- Few safeguards against elected candidates coming from Divisions with large numbers of members risks not having representation from some important regions.
- Models referred to in the consultation process, by those who support direct elections, did not address the relative merits and detriments of different voting models.
- Director tenure under direct election models is generally lower and diminishes the experience and continuity of the Board.

In recognition of the attraction of a hybrid model to some members, the Review Panel did consider a model where at least some of the Directors are directly appointed. This model had the following features:

- CPA Australia's Board would be composed of three directly-elected Directors, three non-member Directors and six Directors appointed by the Representative Council (or its successor, as set out in Section 5.3.2).
- The Representative Council (or its successor) would assess direct-appointment candidates against the Board skills matrix and approve candidates to appear on the ballot paper.
- CPA Australia's membership would vote for candidates.

³⁵ Tricker, R. I. (1996) *Pocket Director: The Essentials of Corporate Governance from A to Z*, The Economist Books, London.

- The counting of ballots would be scrutinised by an external third party and the Divisional and Branch Presidents.

This model, however, was not sufficiently robust to satisfy the Review Panel that the above deficiencies had been addressed. Accordingly, the Review Panel recommends the current Director appointment mechanism remain in place subject to the changes set out in Sections 5.3.5 and 5.3.6 in this Final Report.

5.3.2 Change the Representative Council's (proposed Appointments Council) composition to reduce potential Board influence

In the Preliminary Report, the Review Panel flagged it was considering changes to the Representative Council's composition. As set out above at Section 5.1.2, the Review Panel found that the Board's influence was significant and potentially created 'circular governance', whereby the Board and mechanisms to appoint the Board are too closely interlinked.

The Representative Council's current composition is one representative from each Division, with New South Wales and Victoria having two representatives. There was previously one Board-appointed rotational representative for the collective Branch Councils of the Northern Territory, New Zealand and the European Union.

The rationale for allocating two representatives from New South Wales and Victoria reflects the larger membership in those states, and is said to ensure that there is 'proportional' representation of the membership.

The Review Panel notes that membership distribution has and will change over time and across all (including new) geographies. There is no precise formula for matching membership numbers with numbers of votes. The Review Panel is not convinced that there is any rational basis for numerically proportional representation of the membership. CPA Australia is an international organisation and members seem mostly to identify as CPA Australia members, rather than CPA Australia members from a particular state, territory or country. However, it is equitable to reflect the geographic distribution of members and the particular character, issues and diversity of those geographies.

The Review Panel's proposed changes to the governance model seek to ensure that the governance of CPA Australia is best practice and reflects the Board's role as being to govern and make decisions in the best interest of the organisation and all of its members. It is not a constituency-based representative council.

The Review Panel considers that the purpose of the proposed Appointments Council is to give all members a role in determining the members of its governance body. While geography should be reflected, there is no threshold reason for any geographical area to have a greater voice than any other. The Review Panel therefore recommends that one member of the Appointments Council comes from each Divisional and Branch Council without any additional members from New South Wales or Victoria. The Review Panel notes that the Appointments Council will be smaller than the previous Representative Council, which included up to 49% of members appointed by the Board. With an Appointments Council of 12 to 15 members, the majority of those based in Australia, to give additional members to New South Wales and Victoria not only gives a greater voice to those states, it also overweights membership of that Council to Australia. This is not consistent with the increasingly international complexion and aspiration of the organisation.

It is the Review Panel's view that the best place for representative views to be recognised and understood by the Board is through Divisional and Branch Presidents. The Review Panel recommends a Presidents' Council be formed to provide strategic input and the voice of members to the Board. Under this model:

- The Divisional and Branch Presidents would engage in two-way discussions with Divisional Councils, Branch Councils and the CPA Australia Board. This is discussed in greater detail at 8.3.1.
- The role of the Representative Council would be focussed purely on the appointments process, resulting in a name change from Representative Council to Appointments Council.

Accordingly, the Review Panel recommends several changes to the Representative Council's composition. These changes seek to address potential Board influence on the Representative Council; simplify Representative Council responsibilities; have Branch Council representation on the Representative Council; build greater continuity on the Representative Council; and not overload Divisional or Branch Presidents.

Some of these changes will require Constitutional amendment and include:

- A change in the name of the Representative Council to Appointments Council.
- A change in the powers of the proposed Appointments Council to focus on the appointment of CPA Australia's Directors.
- Expansion of Appointments Councillors (formerly Representative Councillors) to include one representative from each geographical location that has a Divisional or Branch Council.
- Removal of additional representatives from larger Divisions on the basis that the proposed Appointments Council exists to create a connection between members from different geographies and the mechanism to appoint the Board, rather than a body that reflects the membership's composition.
- Removal of Board appointees from the Appointments Council, with the exception of the Chair of the Board, who would be a non-voting member of the Appointments Council.
- Appointment by the proposed Appointments Council of a Deputy Chair of its own number to assist the Chair.
- The ability to convene an in-camera session without the Chair of the proposed Appointments Council.
- Limitations on Appointments Councillors simultaneously acting as Appointments Councillors and Divisional or Branch Presidents.
- Appointments Councillors undertaking to observe the strictest standards of confidentiality with respect to nominee information.
- Appointments Councillors to be featured on the CPA Australia website.
- Secretariat support offered to the proposed Appointments Council.

The Review Panel's view on the Representative Council's Chair has shifted since the Preliminary Report. At the time of preparing the Preliminary Report, the Review Panel contemplated a Representative Council that elected a Chair from its own number. Following further examination and reflection, it is now the Review Panel's view that the increased focus of the Representative Council (or the Appointments Council, under the proposed nomenclature) requires the Chair of the Board to be Chair of the Appointments Council. This is to maintain equity between Appointments Councillors, prevent division in the Appointments Council over selection of the Appointment Council Chair, and ensure Appointments Councillors are focused on selecting the best candidate, rather than representing a 'constituency'. Importantly, the Board Chair would bring first-hand knowledge of how the Board is functioning and inform the Appointments Council of

requirements to fill any skills or diversity gaps. Proper separation of role and purpose is achieved by the Appointments Council Chair not having a vote. This model was implemented in this year's Board nomination and appointment process and feedback is that it worked well.

CPA Australia should develop an induction process for the Appointments Council that:

- Takes place before the nomination and appointment process commences.
- Is conducted face-to-face (where practicable) or through the use of videoconferencing technology.
- Walks through the process and clearly defines the roles and responsibilities of each actor in the nomination and appointment process.
- Stresses the need for confidentiality of candidate information and the consequences of breach.
- Explains the need for Appointments Councillors to select candidates on merit and resist pressure to campaign for candidates from a particular jurisdiction or part of the profession.

The proposed changes to Representative Council's functions are set out in Figure 6 below.

Figure 6: Current and Future State of the Representative Council

Current State

Representative Council
<ul style="list-style-type: none">• Appoints CPA Australia Directors• At the request of the Board or 50% of Representative Councillors, provide guidance to the Board on Member issues or issues concerning CPA Australia's affairs

Recommended Future State

Appointments Council	Council of Presidents*
<ul style="list-style-type: none">• Appoints CPA Australia Directors	<ul style="list-style-type: none">• Advises CPA Australia's Board on strategic issues and opportunities• Voice member views to the Board

**The Council of Presidents is explained in further detail in Chapter 8*

Specific changes to structure and composition of the Representative Council are set out in Table 3 below.

Table 3: Changes to the Representative Council

The Appointments Council		
Domain	Current State	Proposed Future State
Name	Representative Council	Appointments Council
Powers	<p>Appoints CPA Australia’s Directors</p> <p>On the request of the Board or of more than 50% of the Representative Councillors the Representative Council can provide guidance to the Board on member issues, and can consider any issues concerning CPA Australia’s affairs. However, with respect to these powers, the Representative Council has no authority to bind, instruct, or direct the Board</p>	<p>Appoint and reappoint CPA Australia’s Directors</p> <p>The method for voting on nominees is to be determined by the Appointments Council. The use of proxies to vote on candidates is prohibited</p> <p>The Presidents’ Council will be responsible for advice to the Board on strategic issues</p>
Composition	<p>One representative from each Divisional Council and an additional representative from each Divisional Council belonging to a Division with more than 20% of CPA Australia members³⁶</p> <p>The Board may appoint representatives from groups, bodies or committees established or recognised by the Board</p>	<p>One representative from each Divisional and Branch Council. Representatives should not be current Divisional or Branch Council Presidents, but past Divisional or Branch Council Presidents are not excluded</p> <p>The Board Chair will act as Chair. Other than appointing the Chair, the Board cannot appoint any other representatives to the Appointments Council</p> <p>Where circumstances result in an even number of Appointments Councillors, the Appointments Council will vote for one of its number to have a casting vote</p>
Appointment	Representatives from Divisional Councils are elected to act as Representative Councillors	Representatives from Divisional Councils and Branch Councils are elected to act as Appointments Councillors by their Division or Branch
Chair	The President is Chair of the Board and Representative Council	The President is Chair of the Board and Appointments Council. The Chair will be non-voting
Term	Unless appointed to fill a casual vacancy, each Representative Councillor holds office for a term of two years	Unless appointed to fill a casual vacancy, each Appointments Councillor holds office for a minimum term of two years and maximum term

³⁶ Note that currently CPA Australia members in the Northern Territory, Europe and New Zealand are represented by Branch Councils, rather than Divisional Councils.

The Appointments Council

of four years

Appointment Councillors may serve out their term as Appointment Councillor even if their position on a Divisional or Branch Council ends mid-way through service on the Appointments Council

Appointments Councillors' terms are staggered

Reappointments Each Representative Councillor may be reappointed for up to two further terms

Each Appointments Councillor may be reappointed for up to one further term

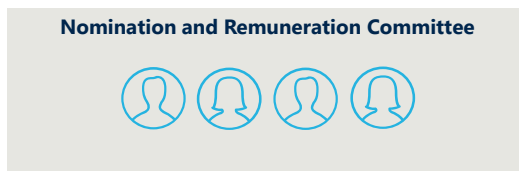
5.3.3 Change the Nomination and Remuneration Committee's composition and function

The Review Panel is of the view that the nomination and remuneration functions of the Nomination and Remuneration Committee require different personnel to assess and make well-reasoned decisions in the interests of CPA Australia. It recommends the Nomination and Remuneration Committee be split into two distinct bodies: the Board Nomination Committee and the Remuneration Committee. This will allow a greater focus on the very discrete issues of nomination and remuneration.

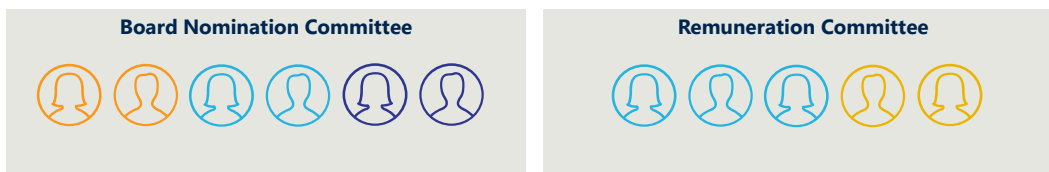
The Review Panel recommends the Board Nomination Committee act as a joint committee of the Board and the Representative Council (which is recommended to be changed to the Appointments Council per Section 5.3.2). The Appointments Council will focus on the Board appointment process. Other functions currently within the Nomination and Remuneration's Committee's remit, such as the provision of awards or conferral of life membership, will be vested in a committee or sub-committee at the Board's discretion. The Remuneration Committee will act as a Board committee. The proposed changes to the Nomination and Remuneration Committee's structure and composition are set out in Figure 7 below.

Figure 7: The Nomination and Remuneration Committee’s current and proposed future composition

Current State



Recommended Future State



Legend



Further, Table 4 sets out the Board Nomination Committee’s proposed structure and function. Table 5 sets out the same information for the Remuneration Committee.

Table 4: The Board Nomination Committee’s structure and function

The Board Nomination Committee		
Domain	Current State	Proposed Future State
Name	Nomination and Remuneration Committee	Board Nomination Committee
Powers	A Board Committee responsible for: <ul style="list-style-type: none"> Establishing processes for the identification of suitable candidates to recommend for Board appointment Assessing and recommending to the Board the desired competencies and skills required on the Board Assessing the extent to which the required skills are represented on the Board 	A joint committee of the Board and Appointments Council responsible for: <ul style="list-style-type: none"> Establishing processes for the identification of suitable candidates to recommend for Board appointment Creating a shortlist of candidates to present to the Appointments Council for deliberation Assessing and recommending to the Board the desired competencies and skills required on the Board of CPA Australia and its subsidiaries

The Board Nomination Committee

- Working with external parties to assess the extent to which the required skills are represented on the Board of CPA Australia and its subsidiaries

Composition	<p>The Nomination and Remuneration Committee comprises the Chair of the Board (who also acts as the Nomination and Remuneration Committee Chair) and at least two other members of the Board, as appointed by the Board</p> <p>On 4 August 2017, the Board announced changes to the Nomination and Remuneration Committee’s composition. These changes included adding three committee members from outside CPA Australia</p> <p>This was changed again recently. The current composition is now two member Directors and two non-member Directors</p>	<p>The Nominations Committee is made up of two Appointments Council appointees, the President, a Board appointee and two non-members. These non-members should be eminent and well-connected</p>
Appointment	<p>Committee members are directly appointed by the Board</p>	<p>Appointments Council nominates its own appointees. The Board will appoint its two appointees. Non-members are appointed following consultation between the Board Nomination Committee and Appointments Council</p>
Chair	<p>The President is Chair of the Board, Representative Council and Nomination and Remuneration Committee</p>	<p>The Board Nomination Committee Chair is to be one of the two Board Directors</p>
Term	<p>The terms of any members on the Committee will be two years, subject to Board confirmation</p>	<p>The terms of any members on the Committee will be a maximum of two years</p>
Reappointments	<p>Reappointments can occur, subject to Board confirmation</p>	<p>Each member is eligible for one subsequent reappointment. Appointments Councillors can be re-appointed even if their term as Appointments Councillor ends mid-way through service on the Board Nomination Committee</p>

Table 5: The Remuneration Committee’s structure and function

The Remuneration Committee		
Domain	Current State	Proposed Future State
Name	Nomination and Remuneration Committee	Remuneration Committee
Powers	<p>A Board Committee, responsible for:</p> <ul style="list-style-type: none"> • Recommending to the Board the terms and conditions of employment for, including the remuneration of, the CEO and any variation to those terms and conditions • Evaluating performance and recommend salary changes and discretionary bonus payments to the CEO • Approving the organisation’s remuneration framework and associated policies • Oversight of the Diversity and Inclusion Policy • Oversight of annual incentive plan adoption 	<p>A Board Committee, responsible for:</p> <ul style="list-style-type: none"> • Recommending to the Board the terms and conditions of employment for, including the remuneration of, the CEO and any variation to those terms and conditions • Evaluating performance and recommend salary changes and discretionary bonus payments to the CEO • Recommending to the Board the terms and conditions of employment for, including the remuneration of the Board and any variation to those terms and conditions • Recommending to the Board the terms and conditions of employment for, including the remuneration of, the key management personnel and any variation to those terms and conditions • Approving the Company’s remuneration framework and associated policies
Composition	<p>The Nomination and Remuneration Committee comprises the Chair of the Board (who also acts as the Nomination and Remuneration Committee Chair) and at least two other members of the Board, as appointed by the Board</p> <p>On 4 August 2017, the Board announced changes to the Nomination and Remuneration Committee’s composition. These changes included adding three committee members from outside CPA Australia</p> <p>The current composition is now two member Directors and two non-member Directors</p>	<p>The Remuneration Committee is made up of three Board appointees (two of which are non-member Directors). CPA Australia’s Head of HR and the General Counsel attend Remuneration Committee meetings as observers</p>
Appointment	Committee members are directly appointed by the Board	Committee members are directly appointed by the Board
Chair	The President is Chair of the Board, Representative Council and Nomination and Remuneration Committee	The Remuneration Committee is chaired by a Board appointee

The Remuneration Committee

Term	The terms of any members on the Committee will be two years, subject to Board confirmation	The terms of Board appointees on the Committee will be a maximum of two years
Reappointments	Reappointments can occur, subject to Board confirmation	Reappointments can occur, subject to Board confirmation

5.3.4 Modify nomination and appointment practices to give the Representative Council (proposed Appointments Council) greater oversight

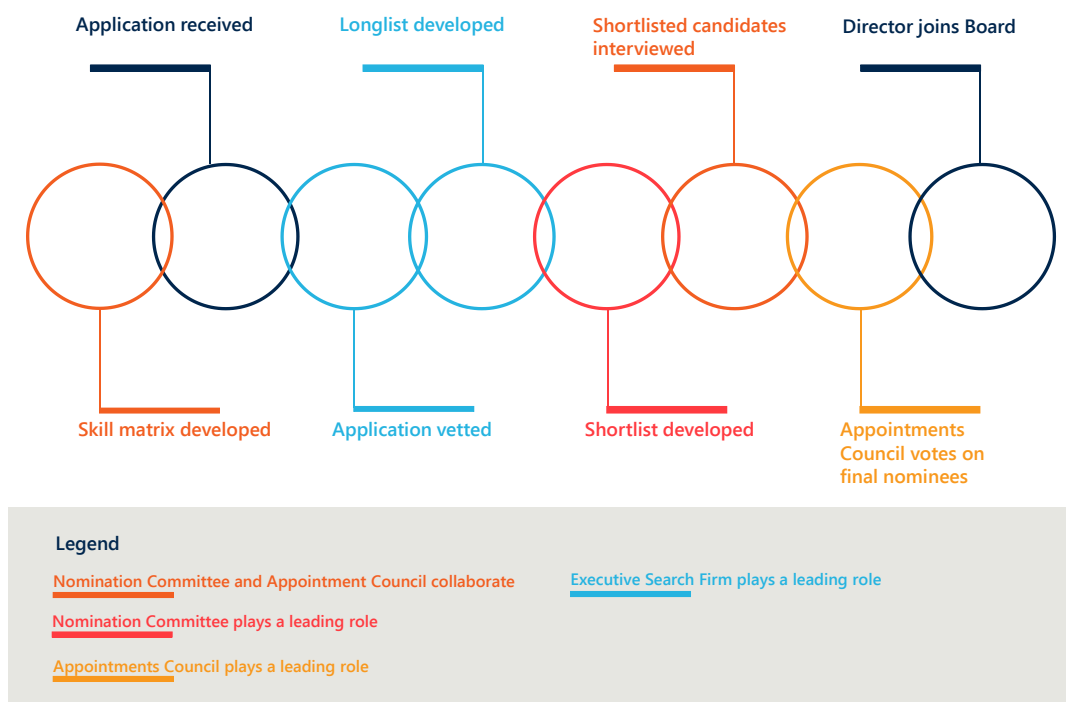
In the Preliminary Report, the Review Panel found the Representative Council’s role in appointing Directors and ensuring due process in the shortlisting of candidates was not dissimilar from the role of similar bodies such as CA ANZ and AICD. It noted that the nomination and appointment process had been subject to continuous improvement in recent years and recommended the measures in Table 1 to improve the process. These, as well as other changes, were implemented in this year’s process.

The Review Panel recommends the following measures be adopted to give the Appointments Council (formerly the Representative Council) greater oversight of the nomination and appointment process:

- The Board Nomination Committee and Appointments Council encourage potential candidates of significant professional standing to apply for nomination.
- The Board Nomination Committee provides a framework for Board appointments to the Appointments Council for comment, prior to finalisation by the Board.
- The Board Nomination Committee develops the Board skills matrix and skills gaps assessment and provides it to the Appointments Council for comment, prior to finalisation by the Board.
- The Board Nomination Committee provides an update to the Appointments Council after the formation of the long and shortlist of candidates.
- All representatives from the Board Nomination Committee make themselves available to discuss shortlisted candidates with the Appointments Council prior to the Appointments Council’s deliberation on the final candidates.
- A quorum of the Board Nomination Committee includes a Director, an appointee from the Appointments Council and a non-member committee member.

The roles of the Appointments Council, Board Nomination Committee and executive search firm in the nomination and appointment process are shown in Figure 8 below.

Figure 8: Revised nomination and appointment process and relevant roles



5.3.5 Retain current Directors’ terms, including number of reappointments

The term of appointment for Directors under CPA Australia’s Constitution is three years, with two subsequent terms.³⁷ In the Preliminary Report, the Review Panel noted that while a total service of nine years is common in the corporate world, a total service of six years may better serve the needs of a member-based organisation. The Review Panel has since undertaken additional examination and has formed the view that a maximum term of nine years should be permitted, with an expectation that six year terms would be the most common term of Directors’ service.

There are two strands of thought regarding Director tenure and effectiveness. There is the ‘expertise hypothesis’, where directors are considered to become more effective as their understanding of the business improves. Then there is the ‘entrenchment hypothesis’, which suggests directors become complacent and stagnant in their role after some time.³⁸ Empirical studies have identified nine years as optimal tenure for directors relative to the contribution they make, with directors serving terms greater than 15 years measurably decreasing their value to the organisation they serve.³⁹ Other academics have criticised the focus on maximum tenure and believe the average board tenure is the most relevant proxy to determine whether a board is entrenched.⁴⁰

³⁷ Constitution of CPA Australia, Article 40(e), 44(b).

³⁸ Wertheim, P., Neill, J., John, D., Curtis, E. (2016) ‘Director Tenure and Leadership effectiveness over internal controls’. *Journal of Leadership, Accountability and Ethics*, June.

³⁹ Huang, S. (2013), *Zombie Boards: Board Tenure and Firm Performance*, *Essays on Corporate Finance*.

⁴⁰ Katz, D. A., & McIntosh, L. A. (2016) ‘Director Tenure Remains a Focus of Investors and Activists’. *New York Law Journal*, July.

Director tenure is an important factor to consider in determining the mix of skills, experience and personal qualities for a board. The ASX Corporate Governance Council has decided not to specify a maximum length of tenure. In doing so it recognises the interests of an organisation and its members are *“likely to be well-served by having a mix of directors, some with a longer tenure and deep understanding of the entity and its business and some with a shorter tenure with fresh ideas and perspective.”*⁴¹

Reappointment should be a rigorous process. In particular, a third term should only be granted where the candidate has performed strongly and weight should be given to the Board’s overall composition, with emphasis on balancing the need for continuity with the need for continual refreshment of talent and thinking.

With these considerations in mind, the Review Panel recommends CPA Australia’s current Director terms remain unchanged, with the following considerations:

- Assessments of a Director’s performance, especially in the lead up to reappointment, should consider the value and diversity of perspective that Director brings.
- A constitutional prohibition on the use of transitional provisions to discount part or full terms already served by Directors should be in place.
- There should be the potential for a Director to serve additional terms on the Board sometime after their final term. The Review Panel acknowledges CPA Australia’s members have a long commitment to the organisation and may be able to contribute after their initial period as Director, especially if they served as a Director earlier in their careers. However, the opportunity for Directors to serve additional terms sometime after their final term must have appropriate safeguards in place.

5.3.6 Increase the President’s term from one to two years, with an additional one-year term

CPA Australia’s President, who also acts as Chair of the Board and Representative Council, ordinarily holds office for one year. The Constitution permits an additional term of one year in certain circumstances.⁴² In the Preliminary Report, the Review Panel noted that single year President or Board Chair terms were not unusual in member-based organisations.

Relevant literature emphasises the importance of an effective Chair. A Harvard Survey makes the point that, *“The particular governance structure is less effective than the leadership quality and effectiveness of the individual in the role of the [C]hair.”*⁴³ Literature suggests a Chair will experience difficulty where they either lack independence, deal with a very short term of appointment or lack the skills inherent to the role of Chair.

In order to increase the Chair’s effectiveness, the Review Panel’s recommends a two-year term. It also recommends that the potential for an additional one-year term be retained in the Constitution. This is to provide the opportunity for an effective Chair to continue service to CPA Australia.

⁴¹ ASX Corporate Governance Council (2014) *Corporate Governance Principles and Recommendations*. 3rd Edition.

⁴² *Constitution of CPA Australia*, Article 67.

⁴³ Harvard Global Board Culture Survey (2016) *International Review of Effective Boards*, Harvard Law School Forum on Corporate Governance and Financial Regulation.

5.3.7 Continually review and improve the Board skills matrix and professional development

In the Preliminary Report, the Review Panel noted that Board selection criteria, skills and experience must be kept under constant review to support best practice governance in a changing competitive landscape.

The Review Panel considers CPA Australia's Board should be a high performing skills-based governance body. Directors should have the skills and attributes required of Directors of a significant international professional body, including having a high standing and profile in the community. While a majority should have a good knowledge of CPA Australia and its membership, best practice recognises the benefits of Directors from different disciplines and backgrounds. The nomination and appointment process should facilitate this outcome while respecting the role of the Appointments Council in the formal selection of Directors.

Presently, CPA Australia's Nomination and Remuneration Committee recommends to the Board the skills and competencies required by Directors. These skills and competency criteria are regularly reviewed, including external benchmarking. Further, Directors are required to self-assess against various performance benchmarks and conduct peer reviews of fellow Directors. This is relevant to continuous improvement and is considered in Directors' re-appointment applications.

In relation to CPA Australia's current skills matrix, performance assessment and continuing professional development requirements, the Review Panel's Preliminary Report made recommendations set out in Section 5.3. Further, the Review Panel has recommended the Appointments Council have more of a role in the development of the Board skills matrix, as discussed in Section 5.3.2. Finally, the Review Panel recommends that the public call for applications highlight the skills that are desired or are in short supply on the current Board, so that applicants are clear on what roles the CPA Australia's Board is seeking to fill.

The Review Panel also recommends a similar skills-based approach is developed for CPA Australia's subsidiaries.

5.3.8 Review the current executive structure

CPA Australia's present executive structure, headed by a CEO role and two COOs, should be reviewed. The Review Panel is aware that executive structure generally follows strategy, which is set by the Board and implemented by the CEO. The current Board is presently reviewing the organisation's strategy in consultation with Divisional and Branch members and CPA Australia staff. The current Board has also approved the CEO search process. Once these pieces are in place, the Review Panel recommends CPA Australia's executive structure is aligned to implement the revised strategic objectives.

The Review Panel has been informed that CPA Australia has formed a new Executive Leadership Team. This is a positive development. As the Governance Institute of Australia advises, an executive management committee can be a key element in whole-of-organisation governance, and promotes effective decision-making on strategic objectives in line with the Board's risk appetite.⁴⁴

The Review Panel is mindful that the governance framework proposed in this Final Report will involve additional work. Consequently, it suggests CPA Australia reviews its Board secretariat function to ensure it

⁴⁴ Governance Institute of Australia (2016) *Good Governance Guide: Executive Management Committees*, <https://www.governanceinstitute.com.au/media/881236/ggg_executive_management_committees.pdf>.

is adequately resourced. In particular, CPA Australia should ensure that the role of Company Secretary does not overlap with other senior executive roles, which is often the case in other organisations.

5.3.9 Review approach to issues management

In the Preliminary Report, the Review Panel found CPA Australia's Board was slow to respond publicly to media reports regarding CPA Australia's marketing, strategy and executive remuneration. The Review Panel echoed the Australian Institute of Company Directors' (AICD) comments that reputation is a strategic asset, not an operational consideration.⁴⁵

In relation to this finding, the Review Panel recommends CPA Australia reviews its approach to issues management. Issues management can be divided into three phases: pre-response, response and post-response:

- **Pre-response.** The pre-response phase is concerned with prevention and preparation. It involves creating an issue management plan. Organisations are better able to handle crises when they have an issue management plan that is updated at least annually, have designated staff trained in issue and crisis management, conduct exercises to test management plans, and pre-draft crisis messages.⁴⁶
- **Response.** The response phase is when management must respond to an issue or crisis. Initial management response when an issue arises should focus on speed, accuracy and consistency.⁴⁷
- **Post-response.** The post-response phase looks for ways to better prepare and fulfil commitments made during the response phase. It involves analysis of the issue management effort for lessons and integrates those lessons into the organisation's issue management system. This phase also involves keeping stakeholders informed of corrective measures, including the progress of relevant examinations.

In reviewing its approach to issues management, CPA Australia could beneficially have regard to the following:

1. **Develop a framework of the type of issues the Board should be prepared for.** The Board and Management need to be aware of their roles in issues management and the circumstances in which Board or Management roles may shift. The Audit & Risk Committee can categorise what issues the Board should be actively involved in the management of.
2. **Have issues management practices in place for both Board and Management.** Issues management practices, including management plans and escalation protocols, should be considered for both Board and Management.
3. **Reputation risk and media management considerations should be elevated in Audit and Risk Committee discussions.** As CPA Australia works on reputation-building activities following intense media coverage on its governance and executive remuneration earlier this year, the Audit and Risk Committee should elevate sensitivity to risk and media management.

⁴⁵ Australian Institute of Company Directors (2017) *Australia's NFP Sector, Building Long-Term Strength: NFP Governance and Performance Study*, p 25.

⁴⁶ Timothy Coombs and Sherry Holladay (2006) 'Halo or Reputational Capital: Reputation and Crisis Management', *Journal of Communication Management* 10(2), 123-137.

⁴⁷ Timothy Coombs (2014) 'Crisis Management and Communications', *The Institute for PR*, <<http://www.instituteforpr.org/crisis-management-communications/>>.

5.3.10 Establish a Review Implementation Committee

In the Preliminary Report, the Review Panel recommended a Review Implementation. CPA Australia's current Board has approved the formation of a Review Implementation Committee as a Board Committee. The Review Panel has been informed that the proposed composition of the Review Implementation Committee includes Directors, Divisional Presidents and staff. Stakeholder consultation has underlined the importance of members being kept informed, on a regular basis, of progress being made in implementing new governance approaches arising from the Board's consideration on the Review Panel's final report.

The Review Panel also suggests that the Review Implementation Committee conducts a review of the newly implemented governance structure at a suitable point to assess the extent to which it has answered the needs of the organisation and members, and to consider any enhancements to it.

5.3.11 Ensure in-camera sessions are built into the Board's agenda

In the Preliminary Report, the Review Panel noted CPA Australia's Constitution entitles the CEO to attend Board meetings.⁴⁸ The Review Panel also noted that the AICD recommends in-camera sessions be built into a company's agenda to enable non-executive directors to explore issues of concern or points of clarification without management's presence.⁴⁹ The Review Panel accordingly recommended amendments to the Board Charter to allow CPA Australia's Directors to consider issues without the CEO or executive management present.

It is also regarded as beneficial for the Board and its committees to build in the opportunity for in-camera sessions with any external advisers and consultants who are involved in audits of a company's processes and functions (e.g. the auditor conducting the statutory audit). This gives the Board and its committees an opportunity to gauge how open the executive has been with the process, and to test any findings requiring action in the absence of the executive.

The Review Panel has been informed this recommendation has already been implemented. CPA Australia's current Board now has in-camera sessions in place.

5.4 Final Recommendations Summary

The Review Panel's final governance recommendations are captured in the following table.

⁴⁸ *Constitution of CPA Australia Ltd*, Article. 48(d).

⁴⁹ Australian Institute of Company Directors (2016) *Director Tools: Meeting Effectiveness – Board Meeting Agenda*.

Table 6: The Review Panel’s Governance Recommendations

Final Governance Recommendations		
No.	Recommendation	Further Detail
1.	Change the current Board composition and appointment model to strengthen a skills-based approach	<ul style="list-style-type: none"> • The Constitution to be changed to require a minimum of two Directors to be non-member Directors • The maximum number of Directors to be reduced from 12 to nine
2.	Change the Representative Council’s (proposed Appointments Council) composition to reduce potential Board influence	<ul style="list-style-type: none"> • A change in the name of the Representative Council to Appointments Council • A change in the powers of the proposed Appointments Council to focus on the appointment of CPA Australia’s Directors • Expansion of Appointments Councillors (formerly Representative Councillors) to include one representative from each geographical location that has a Division or Branch Council • Removal of additional representatives from larger Divisions on the basis that the proposed Appointments Council exists to create a connection between members from different geographies and the mechanism to appoint the Board, rather than a body that reflects the membership’s composition • Removal of Board appointees from the Appointments Council, with the exception of the Chair of the Board, who would be a non-voting member of the Appointments Council • Appointment by the proposed Appointments Council of a Deputy Chair of its own number to assist the Chair • The ability to convene an in-camera session without the Chair of the proposed Appointments Council • Limitations on Appointments Councillors simultaneously acting as Appointments Councillors and Divisional or Branch Presidents • Appointments Councillors undertaking to observe the strictest standards of confidentiality with respect to nominee information • Appointments Councillors to be featured on the CPA Australia website • Secretariat support offered to the proposed Appointments Council
3.	Change the Nomination and Remuneration Committee’s composition and function	<ul style="list-style-type: none"> • The Nomination and Remuneration Committee to be split into two distinct bodies, the Board Nomination Committee and the Remuneration Committee • The Board Nomination Committee to act as a joint committee of the Board and the Appointments Council • Composition of the Board Nomination Committee to include two Board Directors, two appointees from the Appointments Council and two non-members • The Remuneration Committee to act as a Board committee
4.	Modify nomination and appointment practices to give the Representative Council (proposed Appointments Council)	<ul style="list-style-type: none"> • The Board Nomination Committee and Appointments Council encourage potential candidates of significant professional standing to apply for nomination • The Board Nomination Committee provides a framework for Board appointments to the Appointments Council for comment, prior to approval

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	<p>greater oversight</p> <p>by the Board</p> <ul style="list-style-type: none"> • The Board Nomination Committee develops the Board skills matrix and skills gaps assessment and provides it to the Appointments Council for comment, prior to approval by the Board • The Board Nomination Committee provides an update to the Appointments Council after the formation of the long and shortlist of candidates • All representatives from the Board Nomination Committee make themselves available to discuss shortlisted candidates with the Appointments Council prior to the Appointments Council’s deliberation on the final candidates • A quorum of the Board Nomination Committee includes a Director, an appointee from the Appointments Council and a non-member committee member
<p>5. Retain current Directors’ terms, including number of reappointments</p>	<ul style="list-style-type: none"> • Reappointment should be a rigorous process. In particular, a third term should only be granted where the candidate has performed strongly and weight should be given to the overall composition of the Board with emphasis on balancing the need for continuity with the need for continual refreshment of talent and thinking
<p>6. Increase the President’s term from one to two years with potential for a third</p>	
<p>7. Continually review and improve the Board skills matrix and professional development</p>	<ul style="list-style-type: none"> • The Board Appointment Committee should continually review CPA Australia’s current skills matrix, performance assessment and continuing professional development requirements • The Board Nomination Committee develops the Board skills matrix and skills gaps assessment and provides to the Appointments Council for comment, prior to approval by the Board • The public call for applications should highlight the skills that are desired or are in short supply on the current Board, so that applicants are clear on what roles the CPA Australia’s Board is seeking to fill • A similar skills-based approach is developed for CPA Australia’s subsidiaries
<p>8. Review the current executive structure</p>	
<p>9. Review approach to issues management</p>	
<p>10. Establish a Review Implementation Committee</p>	
<p>11. Ensure in-camera sessions are built into the Board’s agenda</p>	<ul style="list-style-type: none"> • Amendments to Board Charter to allow CPA Australia’s Directors to consider issues without the CEO or executive management present

6 Remuneration

This chapter summarises and updates the Preliminary Report's findings on the remuneration of CPA Australia's Directors, KMP and executives. It also sets out the Review Panel's recommendations in relation to Directors, KMP and executives.

6.1 Summary of Preliminary Report

The Review Panel's preliminary findings on the remuneration of CPA Australia's Directors, KMP and executives were set out in Chapter 6 of the Preliminary Report. This section summarises the Preliminary Report's findings.

6.1.1 Background

The Review Panel heard concerns from a range of members and stakeholders about remuneration levels for executives, directors and KMP, and the processes involved in setting remuneration.

CPA Australia traditionally disclosed remuneration at an aggregated level in its financial reports.

A group of members requested a more detailed disclosure under section 202B of the *Corporations Act 2001* (Cth). In response to this request, CPA Australia provided members with an audited schedule of remuneration for the year ending 31 December 2016. This schedule showed that CPA Australia, CPA Australia Advice and other subsidiaries' executives and directors were paid \$6.77m for their services in 2016.

KMP and Director remuneration is set out in Table 7 and Table 8 below.

Table 7: KMP and Directors CPA Australia and CPA Australia Advice

Position	2016 total remuneration
CPA Australia Board of Directors (President, 2 x Deputy Presidents, 9 x Directors)	\$1.49m
CPA Australia Advice Board (Chair, 3 x Directors)	\$0.38m
Chief Executive Officer	\$1.77m (includes \$0.25m CPA Australia Advice)
COO – Commercial and Chief Financial Officer / Director CPA Australia (Malaysia)	\$0.95m (includes \$0.185m CPA Australia Advice)
COO – Member services / Director CPA Australia (Malaysia) / Director CPA Australia (Shanghai)	\$0.9m (includes \$0.185m CPA Australia Advice)

Table 8: Foreign subsidiary Directors not considered CPA Australia KMP

Position	2016 total remuneration
Country Head – Malaysia /Director CPA Australia (Malaysia)	\$0.17m
EGM Education / Director CPA Australia (Malaysia)	\$0.4m
Country Head – China / Director CPA Australia (Shanghai)	\$0.39m
Deputy CFO / Director CPA Australia (Shanghai)	\$0.32m

Member-based organisations are not subject to the same disclosure regime as ASX-listed companies.⁵⁰ Accordingly, CPA Australia is not legally obligated to prepare a detailed remuneration report or disclose remuneration of individual executives or directors. In preparing its general purpose financial statements, CPA Australia is required to apply Accounting Standard AASB124. This provides that an entity discloses KMP compensation in total and for each of the following categories:⁵¹

1. Short term employee benefits.
2. Post-employment benefits.
3. Other long term benefits.
4. Termination benefits.
5. Share-based payment.

The most common methods for member-based organisations’ remuneration reporting to comply with AASB124 is one of:

- A total figure for the executive team; or
- Banded remuneration that shows the number of individuals in a given salary bracket.

Prior to 2016, CPA Australia applied the former.

6.1.2 Preliminary findings

The Preliminary Report made the following findings:

- Board remuneration is above the expectations of many members and those of benchmarked member-based organisations.
- The former CEO’s remuneration and separation payment were well above benchmarks.
- CPA Australia’s KMP were paid more than comparable positions at other member-based organisations.

⁵⁰ Section 300A of the *Corporations Act 2001* (Cth), entitled ‘Annual Directors’ Report – Specific Information to be Provided by Listed Companies’ only applies to ASX-listed companies.

⁵¹ Australian Accounting Standards Board (2015) *AASB124 Related Party Disclosures*, Accessed from <http://www.aasb.gov.au/admin/file/content105/c9/AASB124_07-15.pdf>.

- Traditional disclosure of key management and Directors' remuneration was not transparent.

These findings are summarised below.

Board remuneration is above the expectations of many members and those of benchmarked member-based organisations

Article 45 of the CPA Australia Constitution provides some guidelines as to the maximum remuneration that should apply to Directors.⁵² This sets limits on Director remuneration, such that:

- The President has a maximum remuneration of \$423,000, 60% of the Australian Auditor-General's (A-G) salary of \$705,030 in 2016.⁵³
- The Deputy Presidents have a maximum remuneration of \$176,000, 25% of the A-G's salary.
- The Directors have a maximum remuneration of \$108,000, 15% of the A-G's salary.

In 2013, the Board noted that while the Constitution had historically tied Directors' remuneration to the A-G salary package, this had steeply increased and should be de-coupled.⁵⁴ The Board recognised that to continue this trend would result in remuneration well above market rates. The A-G salary was then implemented as a cap on remuneration rather than a marker for Director's remuneration. There is some difference in interpretation as to how this cap applies. The Review Panel has been informed by CPA Australia's General Counsel that the Constitution does not explicitly provide guidance on whether Directors' remuneration from CPA Australia's subsidiaries count towards the cap. Some members, by contrast, consider the Constitution's cap applies to remuneration derived from the parent and its subsidiaries.

CPA Australia Advice Board appointment and remuneration did not have the same procedure as CPA Australia. Candidates and remuneration were recommended by the former CEO in a meeting in February 2015. The former CEO "*outlined the recommended candidates for the appointment to the Board*".⁵⁵ The CPA Australia Board, excluding those Directors who were to sit on the CPA Australia Advice Board, then approved the appointment of five existing directors and remuneration of:

- \$100k per annum for the Chair.
- \$70k per annum for Directors.

The Review Panel benchmarked all Director remuneration paid in 2016 to a range of organisations that publicly disclose Director remuneration, including Chartered Accountants Australia and New Zealand, AusSuper, Teachers' Mutual Bank, SRG Limited and the Australian Institute of Company Directors. The results of this benchmarking are set out in Figure 9 below.

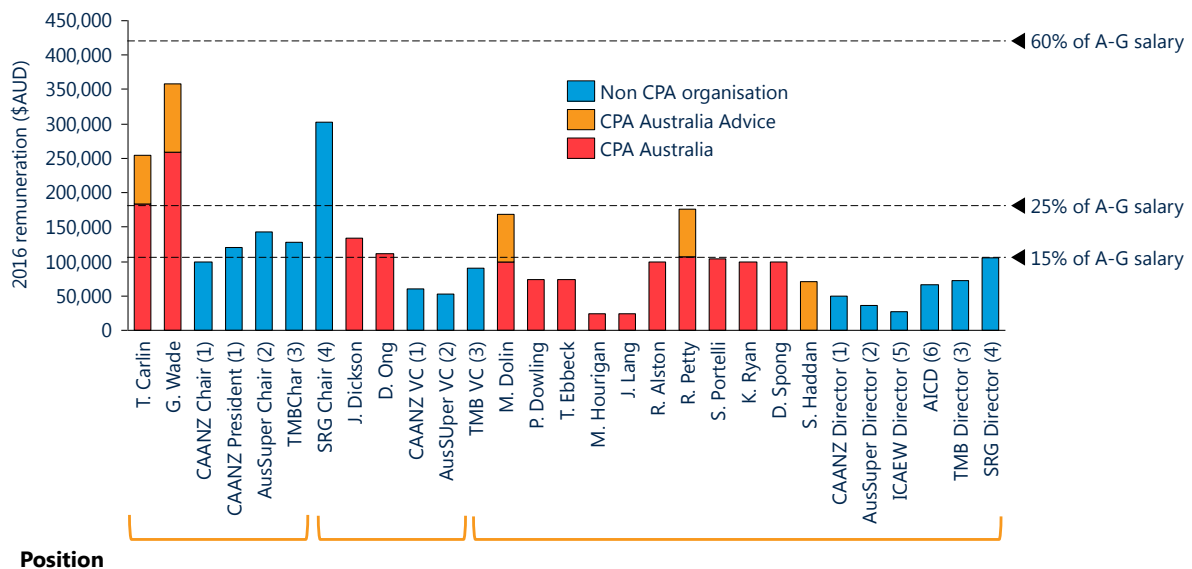
⁵² CPA Australia (28 April 2014) *Constitution* <https://www.cpaaustralia.com.au/~/_media/corporate/allfiles/document/about/cpa-australia-constitution-2014.pdf?la=en>.

⁵³ Australian National Audit Office (ANAO), (September 14 2016) *Annual Report*, <<https://www.anao.gov.au/work/annual-report/auditor-general-annual-report-2015-16>>.

⁵⁴ CPA Australia Board (2013) *meeting minutes*.

⁵⁵ CPA Australia Board (2015) *meeting minutes*.

Figure 9: Board remuneration (including non-cash) and benchmarks⁵⁶



The Review Panel’s benchmarking found that CPA Australia’s directors, particularly those that also sat on CPA Australia Advice’s Board, received higher remuneration than comparative member-based organisations. The individual director remuneration package is comparable to SRG Limited, an ASX-listed public company.

The former CEO’s remuneration and separation payment were well above benchmarks

In 2009, CPA Australia developed a discussion paper titled *Defining the role of the CEO*. This paper prompted the Board to clarify and define the role of the CPA Australia CEO, with an aim of ensuring there was minimal duplication between the role of the President and CEO. The result of this paper was that the CEO role became more externally-focused, with a Chief Operating Officer (COO) assuming the day-to-day leadership of the organisation. The cost of this was justified by the redundancy of the previous Executive General Manager of International Development.

Under that paper, the CPA Australia CEO is required to:

- Ensure the vision and strategic goals of CPA Australia are achieved.

⁵⁶ Sources and notes:

(1) CA ANZ, *Annual reports* <<https://www.charteredaccountantsanz.com/about-us/governance/annual-reports>>. Note that this is presented for 2017 and is unaudited.
 (2) Australian Super, *Annual Report (2016)* <<https://www.australiansuper.com/-/media/australian-super/files/about-us/annual-reports/2017-annual-report.pdf>>.
 (3) Teachers Mutual Bank, *Annual Report (2016)* <https://www.tmbank.com.au/~/_media/about-us/corporate/pdf/annual-report/teachers-mutual-bank-annual-report-2016.ashx>.
 (4) SRG, *Annual report (2016)* <<http://clients3.weblink.com.au/pdf/SRG/01772453.pdf>>; SRG positions include share-based payments and non-chair Directors are able to receive up to \$19,000 per year on top of \$70k Director salary for ARC and NRC commitments.
 (5) ICAEW, *Annual Review Report (2016)* <<http://www.icaew.com/-/media/corporate/files/about-icaew/what-we-do/annual-review/2016/annual-review-report-2016.ashx?la=en>>.
 (6) Per AICD director benchmarks – this salary marks the 90th percentile of Director salaries for NFP entities with between \$100-500m annual revenue. This has been provided by the AICD as a point-in-time assessment, not a historic benchmark.

- Be a key ambassador for the organisation globally.
- Positively influence key external organisations.
- Enhance CPA Australia's position as a premier global brand.
- Provide inspirational leadership to the executive team.⁵⁷

The former CEO was remunerated based on these goals, with aligned KPIs set annually. The CEO's remuneration was recommended annually by the Nomination and Remuneration Committee to the Board.

The former CEO's position changed in 2015 with the incorporation of CPA Australia Advice. When this occurred, the former CEO changed his role title to Group CEO. He performed his duties for CPA Australia, with his contract remaining the same, and also functioned as CEO of CPA Australia Advice. This included additional base salary to be paid, equal to \$250,000 per annum as a "*reflection of additional duties*".⁵⁸

Upon his departure in June 2017, the former CEO's annual contract included:

- An annual salary as CEO of CPA Australia.
- An allowance for additional duties as CEO of CPA Australia Advice.⁵⁹
- Annual bonus of up to 30% of base salary.
- Long term incentive (LTI) to be payable after a period of five years.

The Review Panel notes that neither the 30% annual bonus nor LTI were paid in 2017.

In addition to the above remuneration, the Sydney-based former CEO was provided \$37,000 in accommodation expenses to enable him to work from the Melbourne office.

The Review Panel benchmarked the former CEO of CPA Australia's 2016 salary. In comparison to a range of member-based, publicly-listed, government and international organisations, the former CEO of CPA Australia's salary was found to be comparatively high. Accommodation expenses and bonus payments were within reasonable range, compared to other benchmarked organisations.

The Review Panel also considered the relationship between the former CEO's salary and organisation growth metrics, such as growth in revenue and member numbers, through information provided by CPA Australia and examination of past annual reports. This showed that the former CEO's annual salary grew at a rate several times higher than growth in memberships or revenue. These would seem two clear proxies for organisational growth.

Following the former CEO's departure on 23 June 2017, he received a payment that included residual annual and long service leave entitlements and a separation payment. The separation payment was equivalent to three year's salary, a term of notice well above both market and member expectations.

⁵⁷ CPA Australia (2009) *Defining the role of the CEO*.

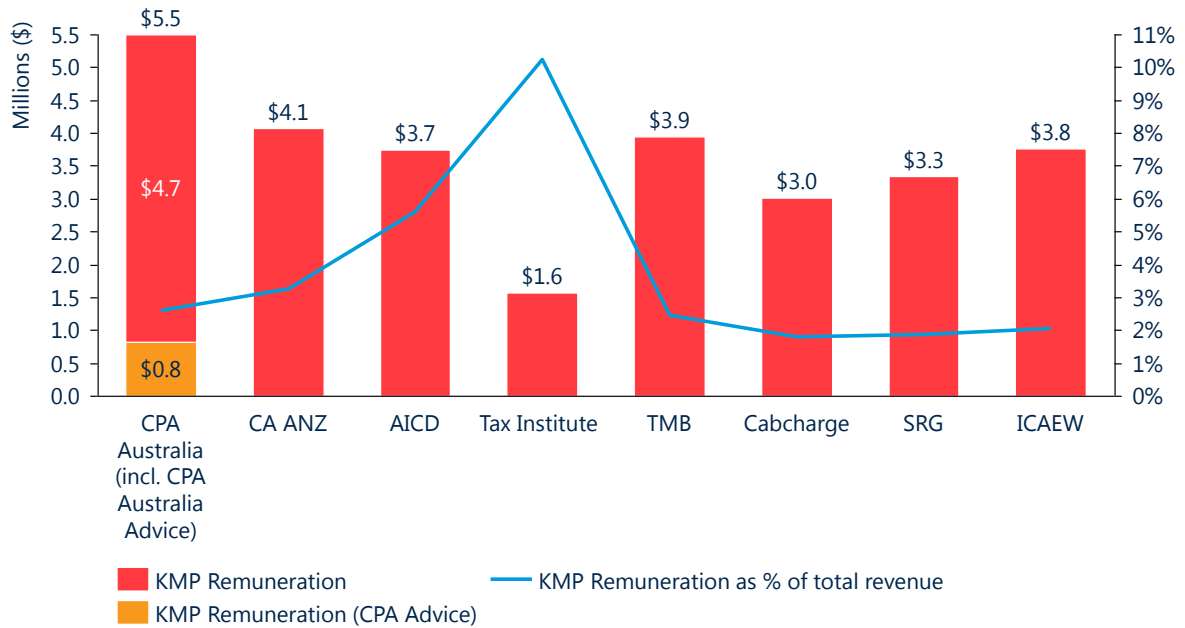
⁵⁸ CPA Australia Board (Aug 2015) *Meeting Minutes*.

⁵⁹ The Preliminary Report incorrectly termed this as salary. As of 1 January 2017, the former CEO was paid a base salary with CPA Australia Limited that incorporated an allowance for additional duties as the CEO of CPA Australia Advice. Prior to 1 January 2017, the former CEO was provided an allowance outside of his base salary for additional duties as the CEO of CPA Australia Advice.

CPA Australia’s KMP were paid more than comparable positions at other member-based organisations

The total 2016 CPA Australia and CPA Australia Advice KMP remuneration package of \$5.5m needs to be compared to similar organisations to gain a perspective on whether or not this level is reasonable for a member-based organisation of their size. Figure 10 compares CPA Australia, including CPA Australia Advice salaries, to seven other organisations that are either member-based or of a similar revenue base.

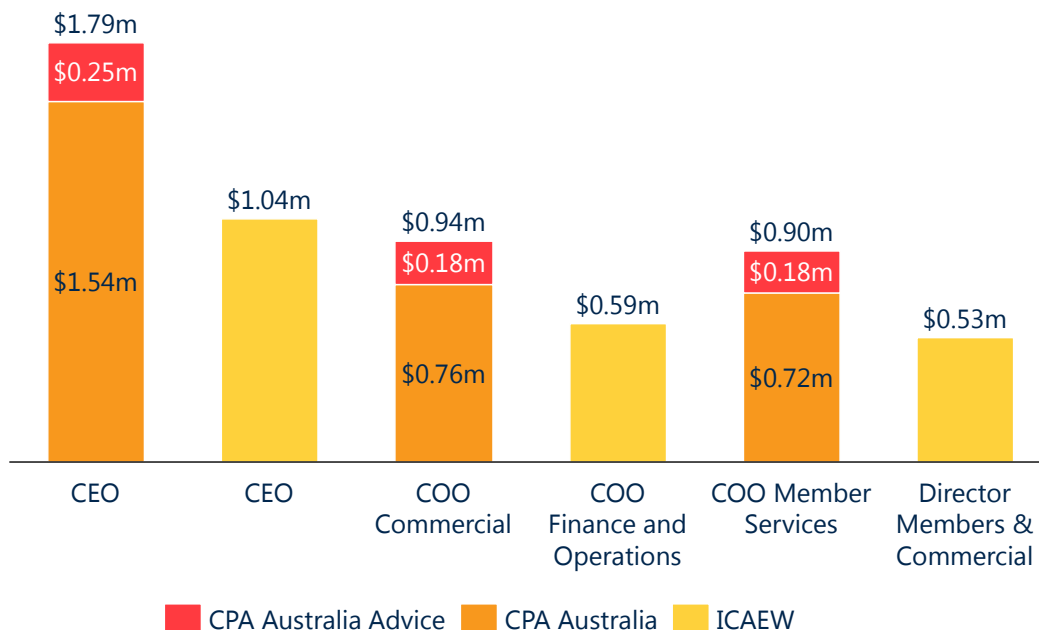
Figure 10: Total KMP remuneration – absolute and as a percentage of total revenue



The KMP of CPA Australia were paid more in absolute value than the other organisations used in Figure 10’s comparison. However, as a percentage of total revenue the CPA Australia KMP are lower than other member-based professional services organisation. The three other member-based representative organisations (CA ANZ, AICD, Tax Institute) all have lower revenue than CPA Australia. Those with similar revenue figures (TMB, Cabcharge and SRG) all pay their KMP proportionately less than CPA Australia does.

The Review Panel further benchmarked the executive salaries of CPA Australia and the Institute of Chartered Accountants in England and Wales (ICAEW). ICAEW was chosen because its executive positions were regarded as similar to CPA Australia’s. The comparison between CPA Australia and ICAEW, shown in Figure 11 below, shows that CPA Australia’s most senior executives are paid more than ICAEW counterparts.

Figure 11: Executive remuneration in CPA Australia and ICAEW



CPA Australia’s remuneration transparency reflects the standard for member-based organisations, but members expect higher levels of transparency

In relation to transparency of remuneration disclosure, the Review Panel found that CPA Australia’s former practice reflects how most member-based organisations report executive, director and KMP remuneration. However, the Review Panel also observed that feedback from members suggested there are high expectations for remuneration transparency. Without the disclosure under section 202B of the Corporations Act, it would only be possible to determine the maximum allowable payment to CPA Australia’s Directors, President and Deputy President. It would not be possible to determine the quantum CPA Australia’s KMP were paid from CPA Australia’s Annual Report alone.

6.1.3 Preliminary recommendations

Several preliminary recommendations were made to align remuneration with comparable standards and member expectations, including:

- The Review Panel recommends a number of changes in Board remuneration to align with member expectations and peer organisations:
 - Board Directors should continue to be remunerated.
 - Board remuneration should no longer be benchmarked to the Auditor-General’s salary.
 - Benchmarking by a third-party organisation should continue to be undertaken annually and benchmarked organisations should include member-based organisations.
 - Disclosure of Director’s remuneration should be made on an individual basis.
- Set CEO remuneration to be competitive but comparable to similar organisations:
 - Limit CEO notice periods to be conservative and in line with commonly adopted benchmarks.

- Benchmark CEO salary to include comparable member-based organisations.
- Disclose CEO salary to members in financial statements in line with best-practice transparency.
- Improve alignment of CEO salary increases and bonus payments with membership and revenue changes and a stronger focus on member engagement.
- Balance attractiveness and comparability to set senior executive remuneration:
 - KMP salaries should be benchmarked annually to comparable organisations including member based organisations.
 - Disclose KMP salaries to members in financial statements.
 - KMP and/or executive direct reports salaries should not be decided by the CEO alone.
- Disclose individual KMP remuneration to improve transparency to members.

6.2 Updated findings

Since publication of the Preliminary Report, the Review Panel has heard from members and has undertaken further examination of remuneration practices at CPA Australia. The Review Panel's findings from these considerations are set out below.

6.2.1 Member feedback

After the Preliminary Report's publication, the Review Panel received submissions from members on the Preliminary Report's findings and recommendations. In relation to remuneration, the following themes emerged:

- **The circumstances in which the former CEO's termination payment was made.** Members expressed concern with the decision to increase the former CEO's termination payment to three years.
- **The amount paid to directors and executives.** Members were concerned that the justification for director and executive salaries, including the rate of salary increases, is not strong. There was also concern that CPA Australia Advice remuneration was not counted towards the cap on Directors' remuneration.
- **Previous non-disclosure of remuneration to members.** Following the first two issues, members were concerned previous disclosure around remuneration was insufficient for the purposes of keeping them informed about how member funds were applied.

A snapshot of member feedback is provided below.



Did all Directors have the opportunity to review [Alex] Malley's contract to see if the organisation was required to make the [termination] payment?



Surely there is a need to address the make-up of the [Nomination and] Remuneration Committee? I am concerned that the recommendations of past salary benchmark exercises have been "gamed" by the CPA leadership, by setting criteria and comparisons that would drive the highest salary recommendations from the benchmarks. Where is the objective check and balance in this process now?



The CEO's remuneration shouldn't be benchmarked against organisations that don't exist to serve their members. Remuneration should be based on the responsibility and difficulty of the job.

Over 80% of survey respondents had strong support for aligning Board remuneration to member expectations, setting the CEO remuneration to be competitive but comparable to similar organisations, and disclosing individual remuneration to improve member transparency. There was a diversity of views around balancing the KMP's remuneration between attractiveness and comparability.

6.2.2 Updates to findings

6.2.2.1 The former CEO's employment contract termination payment was excessive

The Review Panel has conducted stakeholder discussions and reviewed documents to understand the changes made to the former CEO's contractual termination payment. This included:

- Interviewing executives to understand the process for the initially agreed payment and subsequent changes to contract terms.
- Reviewing Board Minutes since the former CEO's employment began.
- Sighting external reviews relating to the CEO's employment.
- Sighting the former CEO's employment contractual documents.

The former CEO's contractual termination payment (also termed 'mutual notice period') was adjusted two times during the period of employment. The payment made on separation was equivalent to three years' salary, a condition far greater than most CEO contractual employment agreements of one year or less. The Review Panel has previously stated, and maintains, that this payment was excessive.

The former CEO's contractual termination payment was adjusted in the following circumstances:

- 1 December 2014: The Board approved the amendment of the CEO's termination provisions with immediate effect to reflect a two-year notice period for either party.
- 24 February 2015: A review of the former CEO's employment contract by CPA Australia's external advisors was addressed to the Board. The review was intended to provide a high-level assessment of the employment agreement, dealing with the extent to which the agreement provides terms and conditions consistent with ordinary commercial expectations in Australia. The review stated that the two-year termination payment was significantly above the anticipated range.

- 7 October 2016: The Board unanimously approved that CPA Australia's and the former CEOs mutual notice period be increased from two to three years. This decision was made in an in-camera session of the Board (without the CEO present).
- 20 October 2016: The former CEO was informed in writing that the mutual notice period between CPA Australia and the former CEO has been increased from two to three years.

The Board decisions and papers do not provide any further background on the decision to extend the notice period. This reflects very poorly on the former Board, given the size of the termination payment being well above any comparable benchmark.

6.2.2.2 CPA Australia is unable to recover the former CEO's termination payment

The Review Panel requested all relevant background material and documentation, including Board minutes and relevant external advice relating to the former CEO's termination payment. Wherever possible, CPA Australia's provided the requested documents. Where there were strict confidentiality provisions affecting relevant materials, documents were sighted by a member of the Review Panel (the Review Panel Members having signed Non-Disclosure Agreements). The Review Panel is satisfied, and agrees with CPA Australia that the former CEO's termination payment was paid in accordance with CPA Australia's obligations. On the basis of the information reviewed, CPA Australia has no ability to recover the former CEO's termination payment.

6.2.2.3 Contractual arrangements prevent the Review Panel from disclosing the former CEO's employment contract

The Review Panel was provided with copies of the annual letter of remuneration and incentive for each year of the former CEO's employment. The Review Panel has viewed the terms of the former CEO's employment and termination. The Review Panel cannot disclose any part of the former CEO's employment contract due to confidentiality obligations binding CPA Australia and the former CEO. Any disclosure of the former CEO's employment contract is a matter for the Board and the former CEO.

6.2.2.4 CPA Australia commissioned an independent remuneration review

Since the Preliminary Report's publication, CPA Australia has engaged an external partner to conduct a remuneration review. The Review Panel has been informed by CPA Australia that the external partner will complete and present their report to CPA Australia's Board in December 2017.

6.2.2.5 CPA Australia misunderstood the requirements of a section 202B disclosure

In accordance with a request from members under section 202B of the *Corporations Act 2001* (Cth), CPA Australia provided members with an audited schedule of remuneration paid for the year ended 31 December 2016. Due to the rarity of schedules requested and disclosed under section 202B, CPA Australia advised the Review Panel that they sought external advice from their auditors on the content.

The initial section 202B disclosure, released in May 2017, limited the disclosure to payments made to directors of CPA Australia and CPA Australia Advice. Member feedback alerted CPA Australia to the need for additional disclosure relating to overseas subsidiaries. CPA Australia subsequently issued a supplementary section 202B disclosure in July 2017 in relation to its overseas subsidiaries, which had not been included in May 2017. While the two disclosures, read together, satisfy the requirements of section 202B, the failure to include overseas subsidiaries in the initial disclosure does not reflect well on CPA Australia given its leadership role in the accounting profession.

6.3 Recommendations

In light of Review Panel’s preliminary recommendations, stakeholder feedback and further research and analysis, the Review Panel makes the following recommendations, as set out in Table 9.

Table 9: Summary of recommendations that appear in this section⁶⁰

Final Remuneration Recommendations		
No.	Recommendation	Type
12.	Amend CPA Australia’s Constitution to clarify the position as to remuneration for CPA Australia’s subsidiaries	New recommendation
13.	Make changes to Board remuneration to align with member expectations and peer organisations	Affirmed from Preliminary Report, with added detail
14.	Set CEO remuneration to be competitive but comparable to similar organisations	Affirmed from Preliminary Report, with added detail
15.	Balance attractiveness and comparability to set senior executive remuneration	Affirmed from Preliminary Report, with added detail
16.	Disclose individual KMP remuneration to improve transparency to members	Affirmed from Preliminary Report

Each recommendation is explained in further detail below.

6.3.1 Amend CPA Australia’s Constitution to clarify the position as to remuneration for CPA Australia’s subsidiaries

In the Preliminary Report, the Review Panel found Article 45 of CPA Australia’s Constitution sets the maximum individual remuneration to be paid for CPA Australia’s Directors, President and Deputy President. No reference is made to subsidiary organisations and whether or not this cap applies to the remuneration received by Directors for their services to subsidiaries. Article 45’s current form has led to differences in interpretation between CPA Australia and some members as to what remuneration is and is not included in the cap.

The Review Panel recommends that CPA Australia changes Article 45 of the Constitution to refer to CPA Australia and its subsidiaries. Research and discussion with key stakeholders has strengthened the Review Panel’s view that this is an appropriate course of action. This should build upon recommendations made in 6.3.2, to remove all references to the Australian Auditor-General’s salary.

When it comes to the issue of remuneration for service on subsidiary boards, the Review Panel notes that it is not uncommon for Directors to be paid additional fees for sitting on subsidiaries. However, CPA

⁶⁰ The recommendations’ wording has changed slightly since their publication in the Preliminary Report. For the original wording, refer to Section 6.1.3, ‘Preliminary Recommendations’.

Australia executives should not be paid a separate salary for any additional management responsibilities involving subsidiaries of CPA Australia. Additional responsibilities should be considered as part of an executives' CPA Australia remuneration package and addressed through salary negotiations.

6.3.2 Make changes to Board remuneration to align with member expectations and peer organisations

In the Preliminary Report, the Review Panel found that CPA Australia Directors, particularly those that also sit on the Board of CPA Australia Advice, receive higher remuneration than comparable member-based organisations. The Preliminary Report also found that individual CPA Australia Directors' remuneration packages are comparable to that paid by SRG, an ASX-listed public company.

The Review Panel confirms the preliminary recommendation in relation to Board remuneration remains unchanged.

Where Board remuneration is recommended annually by the Nomination and Remuneration Committee (proposed Remuneration Committee), it should be reviewed and benchmarked appropriately. This entails:

- **Removing benchmarks to the Auditor-General's salary from the CPA Australia Constitution.** The benchmark or comparison to the Auditor General's salary is no longer relevant. This benchmark, and any subsequent reference to the Auditor-General's salary, should be removed from CPA Australia's Constitution and replaced with either a more appropriate benchmark, an indexed maximum for director remuneration, or a series of principles approved by CPA members.
- **Continuing remuneration benchmarking, but include member-based organisations in the comparators.** CPA Australia presently undertakes annual remuneration benchmarking of Directors. As far as the Review Panel is aware, the benchmarking methodology mainly compares Directors' remuneration with remuneration packages of ASX-listed company directors. The Review Panel considers such an approach is too narrow for a member-based organisation. The risks, pressures and compliance requirements of listed organisations are different to those of a member-based organisation. CPA Australia Director remuneration should reflect this, but also reflect the need to attract and retain high-quality, well-qualified Directors.

Noting that CPA Australia also includes subsidiaries, the Review Panel notes that Board remuneration across the CPA Australia Limited Group should be set, reviewed and benchmarked appropriately.

6.3.3 Set CEO remuneration to be competitive but comparable to similar organisations

In the Preliminary Report, the Review Panel found that the former CEO's salary and payout were well above relevant benchmarks. The Review Panel formed the view that the CEO's salary needs to reflect the scale and global footprint of CPA Australia. At the same time, the CEO's remuneration needs to be competitive with, but comparable to similar organisations.

The CEO's remuneration is determined by the Board, with the Nomination and Remuneration Committee (proposed Remuneration Committee) recommending the remuneration package. To balance CEO remuneration's competitiveness and comparability, it is the Review Panel's view that CPA Australia's Board should:

- **Limit CEO notice periods to be conservative.** Most CEO contractual employments are one year or less. For listed companies, changes to the Corporations Act mean that shareholder approval is required for termination payments that exceed 12 months' salary.⁶¹ It is the Review Panel's view that the Board should not agree to separation payments that exceed 12 months' salary.
- **Have some reference between CEO salary and a balanced scorecard of organisational metrics.** The Review Panel considered the relationship between the former CEO's salary and organisational growth metrics through information provided by CPA Australia and examination of past annual reports. Consideration of appropriate salary increase benchmarks could include similar organisational growth metrics, but there must be sufficient nuance in the metrics selected for them to be meaningful indicators of performance.

As an input to the Board's deliberation on the CEO's salary, the Review Panel recommends the Remuneration Committee should:

- **Benchmark CEO salary with comparable organisations, including member-based organisations.** Benchmarking activities should take into account businesses of equivalent scale, but reflect that the risks, pressures and compliance requirements of listed organisations are different to those of a member-based organisation.

Where the CEO of CPA Australia is also CEO of a subsidiary, the Review Panel holds the view that remuneration for additional duties should be considered as part of the CEO's base salary negotiations. This is explained above at Section 6.3.1.

In addition to an external review of the CEO's salary, CPA Australia has undertaken that CEO remuneration should be disclosed in line with best practice. It has also flagged that consideration will be given to disclose the basis on which the appointed permanent CEO's separation payment should be calculated.

6.3.4 Balance attractiveness and comparability to set senior executive remuneration

In the Preliminary Report, the Review Panel identified that CPA Australia needs to remunerate senior executives (including KMP) sufficiently to attract top-level executives. This imperative, however, needs to be balanced with what comparable organisations pay.

With the exception of the CEO, all CPA staff are banded into eight salary levels. COOs are considered at the top line 'level eight' position, while entry level positions are 'level one'. The salary packages offered to the two COOs were set in a two stage process. The People and Culture team provided the former CEO with a benchmark of level eight remuneration data. This was provided by an external remuneration consultant, with the level eight salaries utilising the 62nd percentile of the remuneration range for each level as a midpoint of the recommended salary for CPA Australia. The former CEO then reviewed and made remuneration recommendations that were set for the next year.

As with Board and CEO remuneration, senior executive remuneration should be set, reviewed and benchmarked appropriately. To achieve this, CPA Australia should:

⁶¹ Productivity Commission (2009) *Executive Remuneration in Australia: Productivity Commission Inquiry Report*, <<http://www.pc.gov.au/inquiries/completed/executive-remuneration/report/executive-remuneration-report.pdf>>.

- **Make the Nomination and Remuneration Committee (proposed Remuneration Committee) responsible for recommending KMP and senior executive salaries.** The Review Panel examined the Nomination and Remuneration Committee's current responsibilities. The Committee's responsibilities with respect to remuneration include recommending the terms and conditions of CEO remuneration. For good remuneration governance, it is the Review Panel's view that this work can be done for all KMP and senior executives. This is reflected in the Review Panel's discussion on the potential future responsibilities of the Remuneration Committee at Section 5.3.3 above.
- **Continue remuneration benchmarking, but include member-based organisations in the comparators.** CPA Australia presently undertakes remuneration benchmarking of KMP. The Review Panel has been informed that the benchmarking methodology mainly compares KMP remuneration with equivalent positions in ASX-listed companies. The Review Panel's considers such an approach is too narrow for a member-based organisation. The risks, pressures and compliance requirements of listed organisations are different to those of a member-based organisation. CPA Australia senior executive and KMP remuneration should reflect this.

Noting that the CPA Australia also includes subsidiaries, the Review Panel emphasises that KMP and senior executive remuneration across the CPA Australia Limited Group should be set, reviewed and benchmarked appropriately. In addition to an external review of the CEO's salary, CPA Australia has undertaken that KMP remuneration should be disclosed in line with best practice. It has determined that remuneration of the CEOs direct reports will be advised by the Nomination and Remuneration Committee.

6.3.5 Disclose individual KMP remuneration to improve transparency to members

In the Preliminary Report, the Review Panel observed that public concerns around executive remuneration has led to an increased legal requirement for disclosure. Listed companies are required to disclose remuneration of executive and key management positions in accordance with their obligations under the Corporations Act.⁶² This disclosure must include the value of remuneration in respect to each director and each of the five highest-remunerated executive officers on a consolidated basis.⁶³ Disclosure of the aggregate remuneration of specified directors and the aggregate for specified executives is required along with comparative figures for the preceding reporting period.⁶⁴

Member-based organisations are not subject to the same remuneration disclosure requirements as listed companies. Although there is a minimum standard for disclosure set out in Accounting Standard AASB124, there are presently a range of disclosure practices employed by comparable member-based organisations. For example:

- Chartered Accountants Australia and New Zealand provides a full break down of CEO and Board remuneration.
- The Tax Institute discloses CEO and Director remuneration.

⁶² *Corporations Act 2001* (Cth), s 300A(1)(c).

⁶³ ASIC, ASIC Regulatory Guideline 68 (26 March 2007) *New financial reporting and procedural requirements*, <<http://download.asic.gov.au/media/3859345/rg68-published-18-may-2016.pdf>>.

⁶⁴ AASB, AASB 1046 (January 2004) *Director and Executive Disclosures by Disclosing Entities*, <http://www.aasb.gov.au/admin/file/content102/c3/AASB1046_01-04.pdf>.

- The Australian Institute of Company Directors discloses an aggregate figure for KMP.

There is a prevailing view among the membership that disclosure of executive remuneration in member-based organisations will enhance corporate transparency and accountability. On this basis, the Preliminary Report recommended that CPA Australia disclose individual remuneration of senior executives for CPA Australia and the CPA Australia Limited Group. Subsequent research and discussion with key stakeholders has strengthened the Review Panel’s view that this is an appropriate course of action.

CPA Australia has undertaken that it will disclose the remuneration of CEO and other KMP in line with best practice.

6.4 Final Recommendations Summary

The Review Panel’s final remuneration recommendations are captured in the following table.

Table 10: The Review Panel’s Remuneration Recommendations

Final Remuneration Recommendations		
No.	Recommendation	Further Detail
12.	Amend CPA Australia’s Constitution to clarify the position as to remuneration for CPA Australia’s subsidiaries	
13.	Make changes to Board remuneration to align with member expectations and peer organisations	<ul style="list-style-type: none"> • Remove benchmarks to the Auditor-General’s salary from the CPA Australia Constitution • Replace benchmark to the Auditor-General’s salary with either a more appropriate benchmark, an indexed maximum for director remuneration, or a series of principles approved by CPA members • Continue remuneration benchmarking, but include member-based organisations in the comparators
14.	Set CEO remuneration to be competitive but comparable to similar organisations	<ul style="list-style-type: none"> • Benchmark CEO salary with comparable member-based organisations • Limit CEO notice periods to be conservative • Have a linkage between CEO salary and a balanced scorecard of organisational metrics
15.	Balance attractiveness and comparability to set senior executive remuneration	<ul style="list-style-type: none"> • Make the Nomination and Remuneration Committee (proposed Remuneration Committee) responsible for recommending KMP and senior executive salaries Continue remuneration benchmarking, but include member-based organisations in the comparators
16.	Disclose individual KMP remuneration to improve transparency to members	

7 Marketing strategy and expenditure

This chapter summarises and updates the Preliminary Report's findings on marketing strategy and expenditure. It also sets out the Review Panel's recommendations in relation to marketing strategy and expenditure.

7.1 Summary of preliminary report

The Review Panel's findings on marketing strategy and expenditure were set out in Chapter 7 of the Preliminary Report. This section summarises the Preliminary Report's findings.

7.1.1 Background

CPA Australia undertakes marketing activities to enable delivery of its Corporate Plan. CPA Australia's Corporate Plan 2015 – 2019 includes two objectives where marketing has a specific role: Leveraging our brand and broadening the audience; and Securing the next generation of talent.⁶⁵ Internationalisation is a component of CPA Australia's marketing activities with brand and marketing activities focussed on Tier 1, Tier 2 and Tier 3 international markets.

There are processes in place to set marketing strategies and expenditure levels. CPA Australia does not have a single overarching marketing strategy that outlines the marketing objectives, activities and investments to be undertaken across CPA Australia. CPA Australia does, however, have processes to align marketing strategies and activities to the achievement of its Corporate Plan. While the Board does not have a formal role in approval of marketing strategies, the Board approves the overall strategy and budget and delegates decision making to senior leadership. CPA Australia also exercises budgeting processes to align expenditure on marketing with its Corporate Plan through its annual budgeting processes.

Marketing activities are delivered by six different teams across two COO portfolios. Together, these teams engage in the full suite of marketing, brand, relationship management, content development, sales, publishing and corporate communications activities.

Marketing is a significant investment for CPA Australia. In 2016 this was a total of approximately \$30m or 17% of its total turnover. Marketing investment over time has been steady. Over the last decade, CPA Australia has invested between 16% and 20% of its annual turnover in marketing activities.

CPA Australia has engaged in a wide range of marketing activities, with more than 100 different types of expenditure. The main activities have been: brand building and engagement (such as sport sponsorships, *The Naked CEO*, *In Conversation with Alex Malley*, other partnerships and sponsorships and social media channel management); corporate communications and content; and business development and events.

Members have expressed concerns about marketing strategies and expenditure. An overwhelming majority of members were critical of CPA Australia's marketing activities and the level of expenditure on marketing. Four overarching themes emerge from member feedback. These were:

- The primary focus of marketing activities should be to promote CPA Australia careers to future professionals.

⁶⁵ CPA Australia, *Corporate Plan 2015 – 2019*.

- A secondary focus of marketing activities should be to promote the value of CPA Australia professionals to the public.
- Sponsorship and brand building campaigns have limited benefits to members and are a misdirection of CPA Australia funds.
- Marketing investment is too high and should be redirected to training and development activities.

Members also expressed concerns over governance practices related to marketing expenditure. This stemmed from a decision by CPA Australia to enter into a major corporate sponsorship with the NBL. Despite evidence of proper formal governance procedure, a perception of poor practice remained amongst member submissions.

7.1.2 Preliminary findings

The Preliminary Report made the following findings:

- CPA Australia's marketing objectives and expenditure are consistent with comparable organisations.
- Prominent marketing activities differentiate CPA Australia, yet some cause tension amongst members.
- There has been an over-emphasis on marketing activities centred on the former CEO.
- Lack of a clear value proposition and member engagement has contributed to members' concerns.
- The organisation structure impacts marketing effectiveness and efficiency.

These findings are summarised below.

CPA Australia's marketing objectives and expenditure are consistent with comparable organisations

A number of members recognise the success of marketing activities. These members support components of the marketing strategy, expenditure and how it is executed. These members also recognise the importance of brand building and marketing to CPA Australia's membership base and feel that many of the investments have been effective to raise the profile and relevance of CPA Australia.

CPA Australia's marketing objectives are typical of comparable organisations. A review of comparable organisations in Australia and internationally reveals that CPA Australia's marketing objectives are in line with the common strategic focus: to attract young professionals; build the prestige of the brand and CPAs; and build awareness and engagement in key international growth markets.

Expenditure relative to size accords with comparable organisations. Comparison with other professional member organisations has found that CPA Australia's investment in marketing activities is within an appropriate range: between 15% and 23% of their overall expenditure. CPA Australia can justify at least equivalent marketing expenditure of the organisations that it has been compared with.

CPA Australia has developed a rationale behind its overall marketing objectives and expenditure. The level of investment in marketing, broad range of activities, strategies and multiple channels and platforms and the focus on international markets all matches strategic and business needs and has a rationale. CPA Australia can also justify how it has executed major sponsorships within its international marketing and brand strategy.

Marketing investments also appear to have a measurable return. While it is difficult to attribute the direct causal relationship between marketing and growth, revenue growth indicates a measurable return from

marketing investment. An internal brand study also shows that brand building activities have been effective in the Australian market. In addition, according to CPA Australia internal brand and marketing studies, the metrics relating to the marketing activities indicate they are typically high performing.

Prominent marketing activities differentiate CPA Australia, yet some cause tension amongst members

A small number of prominent marketing activities depart from common practice. While a large number of activities align closely with other organisations, the most prominent and discussed activities are unlike those at other professional standards organisations. These are the NBL and Australian Open sponsorships, *In Conversation with Alex Malley* television series and the Naked CEO book and website.

These major activities were a significant component of CPA Australia's marketing spend. The combined 2015 to 2016 cost of these major activities was \$15.6m. This represents 17.3% of the total marketing budget for that period and 3.1% of total budget at CPA Australia.

These have been a source of tension for members and the public. Common themes from submissions were that:

- Sponsorship and brand building campaigns have no benefit to members and are a misdirection of CPA funds.
- Marketing activities should be limited to promoting the value of CPA professionals to the public.

There has been an over-emphasis on marketing activities centred on the (former) CEO

Two major brand building activities for CPA Australia were *In Conversation with Alex Malley* and the Naked CEO. These activities evolved at CPA Australia for more than five years. A common feature of these activities was their aim to leverage the profile, expertise and charisma of the former CEO, who was a central feature of both activities.

These activities that centre on the former CEO are unique to CPA Australia. None of the comparable organisations reviewed were found to engage in similar strategies to build prestige, awareness and recruit future professionals through an individual at the organisation. Other member organisations generally do not have such a strong and visible media and entertainment presence in the absence of the members being at the centre of the experience and content.

The individual brand has prominence over the CPA Australia brand. Many of the most prominent brand assets and visible content had the former CEO as the primary brand, with CPA Australia as the secondary brand or not evident at all. There is also evidence that the prominence of the CPA Australia brand decreased as the television series progressed, which weakens the audience's association with the CPA Australia brand and reduces the return.

These brand building activities have created tension and criticism amongst members. Members criticise these investments due to the over-emphasis on the former CEO in his individual capacity rather than as a representative of CPA Australia or its membership.

Some activities may have been a misdirection of CPA Australia funds. Highlighting this are some specific activities and investments that are difficult to align with CPA Australia's strategic and marketing objectives. These are: Naked CEO promotion in Times Square, New York City; airport promotion for the Naked CEO; network selection for *In Conversation with Alex Malley*; personalities participating in the *In Conversation with Alex Malley* series; and entertainment benefits through sponsorship agreements.

The fallout from this has been costly. A brand centred on an individual has created financial and reputational risks for CPA Australia. These were identified in the business case for the Naked CEO concept however no mitigation strategies were noted. In addition, with the departure of the former CEO, CPA Australia is unable to continue with the activities, leading to one-off exit costs. Lastly, the tension and brand damage as a result of the fallout from these activities creates competitive risk for CPA Australia in losing members to other professional accounting organisations.

Lack of a clear value proposition and member engagement has contributed to members' concerns

CPA Australia needs to better understand how its marketing mix delivers value to each member segment. It also needs to strengthen its understanding of membership diversity. The benefits of prominent marketing activities are unclear and may not flow to all member groups. Investments in international brand building campaigns are a relevant example of this, with benefits unclear to many domestic, public practitioner members.

Lack of member engagement contributes to member concerns. The concerns amongst members and the public have focussed on specific marketing investments, such as the NBL and Australian Open partnerships. Insufficient communication and engagement with members regarding the rationale for these investments appears to have contributed to these tensions and concerns. This has led to misunderstanding and membership frustration. Members have clearly indicated that an effort will need to be made to rebuild the trust and confidence of members and external stakeholders.

The organisation structure impacts marketing effectiveness and efficiency

It is common for comparable organisations to have executive level investment in marketing and brand portfolios with direct access to the CEO. This demonstrates that good marketing practice for a professional membership organisation involves direct access between the senior marketing executive and the CEO and a unified structure. There should be a single point of ownership for marketing and brand across the organisation with CEO access.

CPA Australia's structure departs from comparable organisations. CPA Australia conducts marketing activities through different teams and portfolios without executive level representation. Reviewed organisations typically have unified marketing and brand responsibility at the executive level with, at times, separate responsibility for business development.

The structure of CPA Australia creates complexity for the organisation and may hinder its effective delivery of marketing outcomes. The issues with this structure are: no single point of ownership at management level; lack of accountability at management level; lack of executive presence; and lack of a unified marketing strategy.

The structure may prevent proper checks and balances. The former CEO appears to have had a greater role in marketing than would otherwise be expected. Without a Chief Marketing Officer (CMO) or equivalent, and with marketing resources split across two portfolios, the CEO is the only person in the organisation with the control of key marketing levers across business development, brand, channel management, content, member marketing and publishing.

7.1.3 Preliminary recommendations

On the basis of the preliminary findings, the Review Panel made the following preliminary recommendations:

- Ensure marketing investments align to an appropriately set corporate strategy and are executed accordingly.
- Maintain marketing activities that differentiate CPA Australia with proper oversight and caution.
- Ensure CPA Australia’s future brand building activities are centred on CPA Australia and its members.
- Utilise existing engagement mechanisms to ensure members better understand marketing strategies and activities.
- Consider a review of the structure of marketing related business units to fit within an overall organisational structure.

7.2 Updated findings

7.2.1 Member feedback

After the Preliminary Report’s publication, the Review Panel received submissions from members on the Preliminary Report’s findings and recommendations. In relation to marketing strategy and expenditure, the following themes emerged:

- **Marketing strategy:** Some members supported the need for external brand, sponsorship and marketing activities and called for a comprehensive marketing strategy that outlines this. There was also support for the marketing strategy to have a stronger link to the corporate strategy of CPA Australia. Some favoured moving from broad band promotion to targeted marketing that supports members in their own fields.
- **Value for money:** Marketing investments should be assessed on their ability to provide value for money to the organisation and its members.
- **Unified structure:** Some members supported the move to a more unified marketing structure and suggested this would also assist with a comprehensive marketing strategy.
- **Communication:** Some members noted that there had been a failure to outline the ‘why’ of some marketing investments and that this needs to be resolved in the future.
- **International marketing:** Members supported dedicated marketing efforts in international markets and stressed the need to avoid being Australian-centric.

A snapshot of qualitative member feedback is provided below.



Sponsorship and brand building campaigns, when developed as part of a comprehensive marketing strategy can play a valid and valuable role in the growth and development of the CPA Australia brand – connecting our membership and brand to major organisations in the wider business community.



A clearer link between marketing and core CPA strategy is also needed.



The greatest benefits to be gained by a centralised structure will be a unified marketing strategy by CPA Australia – and from a member’s perspective, greater understanding of our value proposition and engagement with the brand. CPA Australia currently benefits from having a wealth of marketing expertise within the organisation, but the impact of that expertise is diminished by the current decentralised structure.

Stakeholders who responded to the online survey were in support of the preliminary recommendations. At least 80% of respondents agreed or strongly agreed with four of the preliminary recommendations while one (Maintain marketing activities that differentiate CPA Australia with proper oversight and caution) received mixed levels of support.

7.2.2 Updates to findings

After the Preliminary Report’s publication, the Review Panel conducted further examination and analysis into several areas. This section sets out the Review Panel’s findings in relation to these areas.

7.2.2.1 The CPA Australia Board has committed to moving away from personal branding

The Review Panel in its Preliminary Report recommended that CPA Australia avoid brand building activities that centre on an individual, especially an employee. It also found that there were instances of CPA Australia being the secondary brand to the former CEO primary brand in two major brand building campaigns: The Naked CEO and *In Conversation with Alex Malley*.

The CPA Australia Board has indicated that it is officially moving away from these strategies and activities in future brand building campaigns. This is highlighted by the following extract from its statement on 10 October 2017:

“The previous strategy of personalising the leadership through branding the CEO role is over. Going forward the CPA Australia brand will be the primary brand. The attributes we will be looking for in a new CEO reflect this change of strategy.”⁶⁶

7.2.2.2 Work is underway to better align marketing investments to different member segments

The Review Panel in its Preliminary Report found that CPA Australia needs to better understand the value proposition of marketing to its member segments. The Brand and Integrated Marketing business unit’s one-page plan set out an initiative for CPA Australia to map member journeys to understand the different needs of member segments from marketing and brand building activities.

⁶⁶ Statement of the CPA Australia Board, 10 October 2017.

CPA Australia has stated that the Brand and Integrated Marketing team has commenced the process of mapping out career journeys of key member segments to understand their distinct goals, needs and frustrations. The aim of this is to identify how marketing activities can add value to different member segments, and how marketing overall can better meet the needs of a diverse membership base. While the activity is a recent initiative and ongoing, CPA Australia states that it has been helpful to better understand the needs of different segments and how marketing activities can have a value proposition aligned with different member needs and expectations.

7.3 Recommendations

Bringing together the Review Panel’s preliminary recommendations, stakeholder feedback and further research and analysis, the Review Panel makes the following recommendations:

Table 11: Summary of recommendations that appear in this section

Final Marketing Strategy and Expenditure Recommendations		
No.	Recommendation	Type
17.	Align marketing investments with an appropriately set corporate strategy and execute accordingly	Affirmed from Preliminary Report, with added detail
18.	Maintain marketing activities that differentiate CPA Australia, with proper oversight and caution	Affirmed from Preliminary Report, with added detail
19.	Centre future brand building activities on CPA Australia and its members rather than individual employees	Affirmed from Preliminary Report, with added detail
20.	Develop and assess marketing activities based on an identified value proposition to all member segments	Affirmed from Preliminary Report, with added detail
21.	Utilise existing engagement mechanisms to ensure members better understand marketing strategies and activities	Affirmed from Preliminary Report, with added detail
22.	Review the organisation structure of marketing related business units to improve effectiveness and oversight	Affirmed from Preliminary Report, with added detail

Each is explained in further detail below.

7.3.1 Align marketing investments with an appropriately set corporate strategy and execute accordingly

The Review Panel found in its Preliminary Report that CPA Australia has invested in marketing activities that:

- Align with its Corporate Plan.
- Suggest a return on investment.

- Assist in the pursuit of its strategic objectives.
- Are comparable to other membership organisations.

The Review Panel also found that there have been several marketing activities that have caused tension amongst members. These represented a significant component of CPA Australia's marketing expenditure and, in the case of marketing centred on the former CEO, were over-emphasised.

In relation to CPA Australia's overall marketing activities and expenditure and the findings from the Preliminary Report, it is the Review Panel's recommendation that CPA Australia should:

- Develop a consolidated marketing strategy that fits within the corporate strategy so that marketing investments are directed towards achieving the overall organisations' goals.
- Identify key performance metrics for all significant marketing investments and processes to track, measure and report on these over time.
- Implement periodic reviews of brand equity to ensure long-term brand building investments are achieving target performance metrics and the pursuit of strategic objectives.

7.3.2 Maintain marketing activities that differentiate CPA Australia, with proper oversight and caution

The Review Panel found in its Preliminary Report that CPA Australia has engaged in marketing and brand building activities that help to differentiate it from competitors and substitutes, and which assist in a competitive environment for professional membership and international growth. However, it was also found that these marketing strategies must, first and foremost, support the objectives of CPA Australia, have a clear definition for success and not be to the exclusion of other marketing activities directed at current members and to their benefit. The Review Panel also found that these activities have led to tension and confusion amongst members and stakeholders.

The Review Panel recommends that CPA Australia strengthen the business case development processes for large scale and prominent marketing activities to include a proper focus on risk identification and mitigation.

The Review Panel provides guidance that CPA Australia should provide members with an understanding of marketing activities, particularly for any activities that depart from expected practice. This is discussed in greater detail in Section 7.3.5.

7.3.3 Centre future brand building activities on CPA Australia and its members rather than individual employees

The Review Panel found in its Preliminary Report that an over-emphasis of brand building activities on a single individual, especially an employee, has inherent risks and limited benefits to CPA Australia. Proper mechanisms need to be put in place to ensure future marketing and brand building activities are appropriate for the organisation and its members and mitigate any associated risks. The Review Panel notes that CPA Australia has already committed to cease these strategies.

With respect to brand building activities the Review Panel recommends that:

- CPA Australia should be the master or primary brand for all marketing activities and assets.

- CPA Australia's brand and brand building activities should reflect the diversity of the organisation and its membership.
- Personalisation of branding is generally to be avoided.

7.3.4 Develop and assess marketing activities based on an identified value proposition to all member segments

The Review Panel found in its Preliminary Report that segments of CPA Australia's diverse membership are unable to identify the value to them of specific and prominent marketing activities. Further examination has identified that CPA Australia has commenced processes to map out journeys of different member segments to develop marketing strategies directed to their needs.

The Review Panel recommends that CPA Australia assess marketing investments based on a distinct value proposition to each member segment, building on the journey mapping processes currently underway.

7.3.5 Utilise existing engagement mechanisms to ensure members better understand marketing strategies and activities

The Review Panel found in its Preliminary Report that CPA Australia has a number of formal and informal mechanisms to enable members to meaningfully engage in the strategy and operations of CPA Australia (discussed in Section 7.3.1). It was found that these mechanisms are not being leveraged to create a better understanding of the marketing strategies and investments by members.

It is also important for CPA Australia to retain strategic and operational control and oversight of its marketing strategies and investments. It need not be limited or held back in the development and implementation of marketing strategies as a result of the process to engage and communicate with members.

Based on these observations, the Review Panel recommends that CPA Australia:

- Utilise existing engagement mechanisms to ensure members better understand the marketing activities, investments and their rationale, with a focus on innovative activities that depart from expected practice.
- Continue to treat specific marketing activities as operational decisions for CPA Australia, with appropriate commercial confidentiality and sensitivity.

7.3.6 Review the organisational structure of marketing related business units to improve effectiveness and oversight

The Review Panel found in its Preliminary Report that the structure of marketing teams within CPA Australia is fragmented. CPA Australia executes its marketing activities through at least six teams across two of its executive level portfolios. This structure adds complexity to the organisation and contributes to some of the issues faced in relation to brand building activities due to a lack of appropriate checks and balances at the organisational level. The Review Panel also found that the structure of marketing teams needs to fit within an overall organisation structure for CPA Australia so that there is alignment between the corporate strategy and the business units that execute this strategy.

The Review Panel recommends that CPA Australia reviews the organisational structure of its marketing related business units. It is not for this review to recommend a final structure, as this would need to align with a new corporate strategy and the overall organisation structure as set by the CEO.

7.4 Final Recommendations Summary

The Review Panel’s final recommendations are captured in the following table.

Table 12: The Review Panel’s Recommendations

Final Marketing Recommendations		
No.	Recommendation	Further Detail
17.	Align marketing investments with an appropriately set corporate strategy and execute accordingly	<ul style="list-style-type: none"> • Develop a consolidated marketing strategy that fits within the corporate strategy so that marketing investments are directed towards achieving the overall organisations’ goals • Identify key performance metrics for all significant marketing investments and processes to track, measure and report on these over time • Implement periodic reviews of brand equity to ensure long-term brand building investments are achieving target performance metrics and the pursuit of strategic objectives
18.	Maintain marketing activities that differentiate CPA Australia, with proper oversight and caution	<ul style="list-style-type: none"> • Strengthen the business case development process for large scale and prominent marketing activities to include a proper focus on risk identification and mitigation
19.	Centre future brand building activities on CPA Australia and its members rather than individual employees	<ul style="list-style-type: none"> • Have CPA Australia as the master or primary brand for all marketing activities and assets • CPA Australia brand and brand building activities to reflect the diversity of the organisation and its membership • Personalisation of branding to generally be avoided
20.	Develop and assess marketing activities based on an identified value proposition to all member segments	<ul style="list-style-type: none"> • Assess marketing investments based on a distinct value proposition to each member segment, building on the journey mapping processes currently underway
21.	Utilise existing engagement mechanisms to ensure members better understand marketing strategies and activities	<ul style="list-style-type: none"> • Utilise existing engagement mechanisms to ensure members better understand the marketing activities, investments and their rationale, with a focus on innovative activities that depart from expected practice • Continue to treat specific marketing activities as operational decisions for CPA Australia with appropriate commercial confidence and sensitivity

Final Marketing Recommendations

22. Review the organisation structure of marketing related business units to improve effectiveness and oversight
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8 Strategy and performance of member services and engagement

This chapter summarises and updates the Preliminary Report's findings on strategy and performance of member services and engagement. It also sets out the Review Panel's recommendations in relation to strategy and performance of member services and engagement.

8.1 Summary of Preliminary Report

The Review Panel's findings on the strategy and performance of member services and engagement were set out in Chapter 8 of the Preliminary Report. This section summarises the Preliminary Report's findings.

This section discusses the role of Divisions and Divisional Councils. It is intended to apply to Branch Councils even where these are not explicitly mentioned.

8.1.1 Background

Member services are the specific offers that CPA Australia delivers to members from its member services portfolio and associated functions. Member engagement refers to the engagement activities undertaken by Divisions and CPA Australia's membership function to facilitate connectedness and participation between members and the organisation.

The review of member services and engagement focusses on whether the engagement model and activities are appropriate for CPA Australia, the extent to which members feel they are valued and able to participate, and whether the engagement mechanisms are effective and efficient. This involves analysis of members' perceptions and participation levels, and engagement models applied by other organisations.

The major member services that CPA Australia provides to some 162,750 members are education, training, technical support and advocacy. Member services are delivered by six teams within the member services portfolio. CPA Australia's member services function is led by the COO – Member Services, and the portfolio aims to provide members with high quality information and to foster strong and engaging relationships with members.

Volunteer members and paid employees are involved in member services and engagement. There are various member-run councils and committees that serve as a conduit between members, the Board and management.

Member engagement is an ongoing challenge for CPA Australia. CPA Australia has continually implemented initiatives to improve its member engagement and reduce pain points for members. This is the case for all membership organisations and the challenge mounts with increasing scale and diversity. Technology provides an engagement opportunity, but also adds to this challenge.

Member services are CPA Australia's largest revenue source. In 2017 forecast revenue from membership fees is \$84.7m. Members generate a large proportion of CPA Australia's revenue through membership fees and education and training fees. Expenditure on these services is also a large component of CPA Australia's operational expenditure.

8.1.2 Preliminary findings

The Preliminary Report made the following findings:

- Divisional Councils have become more constrained in engaging with members.
- Mechanisms that facilitate member involvement in strategy setting can be improved.
- Member feedback suggests a misalignment between services and membership costs.
- Members were concerned about the rationale behind the 2017 AGM being held in Singapore.
- Feedback to the Review Panel indicates that on occasions, member interactions with staff and members have not been respectful and have been damaging.

These findings are summarised below.

Councils have become more constrained in engaging with members

Stakeholder submissions suggested that the role of the Divisional Councils has diminished. Members suggest there has been gradual disempowerment of Divisions and that CPA Australia's approach to member engagement has become increasingly centralised.

Divisional Councils feel greater resources could help them engage more effectively. They feel constrained in their capacity to deliver wider-reaching and more innovative member engagement activities.

Divisional Councils also feel they should have greater control of member communications. Some Divisional Councillors expressed the view that communications to members required a long process of approvals by head office, and that it is often challenging for Divisions to access members' contact details.

Mechanisms that facilitate member involvement in setting CPA Australia's direction can be improved

There are formal mechanisms for Divisional Councils to contribute to the direction of CPA Australia. CPA Australia's Constitution states that Divisional Councils act as the primary touch point for members. There are currently three ways the Divisional Councils can feed into CPA Australia's strategy and direction through the Board: be involved in CPA Australia's review and redevelopment of its Corporate Plan; the Board may ask Divisional Councillors to lead task forces; and the Board may ask Councillors to form conference task forces. The Review Panel notes that CPA Australia's Constitution limits the Representative Council's ability to provide advice to the Board on member issues.

Other member-based organisations have similar channels between members and the Board.

In addition to the formal mechanisms, informal mechanisms were put in place to facilitate member feedback. These allow members to raise issues and communicate with executive management, particularly with respect to CPA Australia's strategy.

Members feel that there is scope to improve how they influence CPA Australia's direction.

Member feedback suggests a misalignment between services and membership costs

Some members expressed the view that the cost of membership and specific services do not match the value received. The cost of professional development and training is also perceived by some as too high.

Members were concerned about the rationale behind the AGM being held in Singapore

In January 2017, CPA Australia's Board resolved to hold CPA Australia's 2017 AGM in Singapore. The stated purpose of holding an AGM in Singapore was to demonstrate CPA Australia's ongoing commitment to growth in the Asia-Pacific region and acknowledge members who worked to establish CPA Australia's presence there.

Members were concerned about the reasonableness of the AGM's location and their ability to participate. For example, there were concerns the live streaming technology prevented real-time participation.

Feedback to the Review Panel indicates that on occasions, member interactions with staff and members have not been respectful and have been damaging

The Review Panel found that CPA Australia currently does not have a charter that explicitly governs the standards of behaviour of members when dealing with staff and members.

It was the Review Panel's view that, given the incidence and frequency of disrespectful communication in writing, face-to-face, and in social media that has been brought to its attention, it would be timely for CPA Australia to articulate a policy that sets a minimum standard for appropriate professional behaviour in relationship to the organisation.

8.1.3 Preliminary recommendations

Based on the preliminary findings, the Review Panel made the following preliminary recommendations:

- Enable Divisions and Divisional Councils to better engage with members.
- Improve member ability to meaningfully engage with CPA Australia's directions.
- Periodically review costs of member services and how membership value is reported.
- Make Annual General Meetings accessible to all members:
 - CPA Australia should provide sufficient lead time by announcing the timing of the next AGM well in advance, especially if the AGM is held overseas.
 - Appropriate measures be put in place using appropriate technology to ensure accessibility to those members who are unable to attend in person.
- CPA Australia institutes a code for appropriate professional behaviour by members.

8.2 Updated findings


Since publication of the Preliminary Report, the Review Panel has heard from members and has undertaken further examination into the strategy and performance of member engagement at CPA Australia. The Review Panel's findings from these considerations are set out below.

8.2.1 Member feedback


After the Preliminary Report's publication, the Review Panel received submissions from members on the Preliminary Report's findings and recommendations. In relation to strategy and performance of member services and engagement, the following themes emerged:

- **Member empowerment:** Some members feel that they have been disempowered and no longer have an influence on the organisation as a result of the diminished profile of Divisional Councils and the lack of direct and formal links between the membership and the Board.
- **Member governance:** Some member groups suggest the establishment of a new formal group to engage the membership, deliberate on issues and opportunities and advise the Board on strategic opportunities. There is a view that the Representative Council is not the appropriate group for this role.
- **Member conduct and codes:** Some members feel that a code of member conduct is less important than a code that outlines appropriate behaviour of CPA Australia employees towards members.
- **Member communication:** Members feel that there should be a more decentralised approach to member communication within Divisions so that members receive more communication that is relevant to them.
- **Member value:** Some members feel that membership value for money needs to be better understood and articulated. This is especially true with respect to professional development programs, public practitioners and regional members.


A snapshot of qualitative member feedback is provided below.




Remember this is a member-based organisation and not a corporate or a private club and there should be clear prompt communication with members on issues affecting their organisation.



[I]t would be critical for CPA Australia to establish and nurture direct and regular communications channels with Divisional Councils to enhance the two-way interaction between members and the Board...as well as channels be established for regular feedback to be communicated from councils (being the voice of members) to the Board.



Divisional Councils must have the opportunity to meet with members in various locations, at various times, in ways that facilitate semi-formal two-way discussion. They should be supported by CPA Australia staff who are knowledgeable but also open to feedback and challenge.



The proposed Presidents' Council (see below) would be an effective mechanism for synthesising the views of members, obtained via Divisional Council engagement, into recommendations and advice for the Board.

Stakeholders who responded to the online survey were in support of all except one of the preliminary recommendations. Between 76% and 85% of respondents agreed or strongly agreed with four of the preliminary recommendations and the balance of the responses were largely neutral. The preliminary recommendation – *CPA Australia institute a code for appropriate professional behaviour by members* – received more negative feedback, with 21% disagreeing or strongly disagreeing with this recommendation and a further 17% neutral. The remaining agreed or strongly agreed.

8.2.2 Updates to findings

After the Preliminary Report's publication, the Review Panel conducted further examination and analysis into a number of areas. This section sets out the Review Panel's findings in relation to these areas.

8.2.2.1 Divisional Councils have a clear role to engage with members

Divisional Councils have an explicit role in member engagement on behalf of CPA Australia. The Divisional Councillor's handbook, which Councillors receive upon election, states that they are the *"primary touch point for members with a key focus on member engagement and are essential to linking with and serving members."*⁶⁷ The handbook also states that each Council is to provide effective representation of members within their Division. This articulates a clear role for Divisional Councillors to engage with members to obtain, feedback and represent their views.

A 2017 Divisional Councillors survey found that at least 96% of respondents are familiar with the content of the handbook and have the information they need to perform their role.⁶⁸ This suggests that almost all Councillors have knowledge of their key role in member engagement and to represent members.

8.2.2.2 Divisional Councils are supported but could be better enabled to engage with members

Divisional Councils are well supported on an administrative basis but could be better enabled to exercise their member engagement role effectively. There has been mixed feedback with respect to the level of support available to Divisional Councillors to engage with members in formal and informal settings.

Divisional Councillors confirm that General Managers provide useful and effective administrative support. General Managers manage and are accountable for budgets for each Division and work collaboratively to discuss how the budgets should be applied across events, staff, travel, sponsorship, communications, printing and other expenses to achieve CPA Australia's goals. General Managers have access to CPA Australia staff, member contact details and other resources and expertise which they can utilise to assist with the planning and execution of events and other member engagement touch points.

However, while Divisional Councillors advise that they feel well supported to execute their role, there is a perceived lack of flexibility with how budgets are applied and that Divisional Councillors have little budget autonomy.

CPA Australia also maintains boundaries on access to member communication details and communication channels to members. There is feedback that the centralisation of resources and commercial imperatives

⁶⁷ CPA Australia (2017) *Divisional Council Handbook*.

⁶⁸ CPA Australia (2017) *Divisional Council's Survey 2017*.

(such as an emphasis on the financial return from member engagement activities) reduces the level of discretion that Divisional Councillors have to undertake engagement activities.

There is scope to enhance the ability for Divisional Councils to collaborate and share with one another to draw on the collective expertise and experience of the network. This could help Divisional Councillors engage more effectively within their area.

The Review Panel has been informed that CPA Australia is considering implementing a framework that will allow Divisional Councils to propose innovative member engagement activities, which will be assessed and funding allocated where there are clear benefits to members.

8.2.2.3 The link between the Board and the membership (through Divisional Councils) has reduced over time

The direct links between the CPA Australia Board and the membership through Divisional Councils and Presidents has reduced over time. CPA Australia Board members used to engage in sessions with the Divisional Presidents to discuss and explore strategic issues and opportunities relevant to CPA Australia. Over time, this has reduced to informal touch points where Board members might occasionally attend Council meetings. Until recently there has been very little direct link and contact on any formal or periodic basis.

There is little formal requirement for the Board to engage the membership on strategy in an ongoing way. CPA Australia's Constitution requires that the Board engage the membership to develop its periodic Corporate Plan. However, with a 3-year strategic planning cycle, this is insufficient for there to be ongoing links between the Board and the membership that enables members to engage in the strategic direction of CPA Australia.

A more formal link between CPA Australia members and the Board that has a real impact on the direction of CPA Australia would be beneficial. General Managers state that proposals and documents that Divisional Councils submit to CPA Australia have not been taken seriously or acted upon. This dissuades members from engaging with Councils as they perceive they have no real voice and are unable to impact or influence the Board or the organisation.

Some groups have suggested that there could be a formal role for a Divisional Presidents group. This model was preferred over an expanded role for the Representative Council. The suggested role for the Divisional Presidents group is to deliberate on and provide advice to the Board on strategic issues and opportunities. It is expected that this would also lead to greater member interest in engaging with Divisional Councils if they are aware that their input has a direct impact on the direction of CPA Australia.

8.2.2.4 CPA Australia is considering a more dedicated Board engagement model

The Board, in its 10 October 2017 statement, committed to strengthening member engagement. The Board states, "*Member engagement is a priority for us and the Board plans on being a very active one. We are committed to a new plan for member engagement across our divisions, branches and more broadly.*"

The Board intends to develop a Board sub-committee responsible for member engagement. The responsibilities and composition of this sub-committee and how it will execute its member engagement role are yet to be determined.

8.2.2.5 CPA Australia would benefit from a clearer and more visible member value proposition

The Review Panel found in its preliminary report that some members expressed the view that the cost of membership and specific services do not match the value received. It was found that there would be benefit in CPA Australia considering how it communicates the value of membership to members.

CPA Australia would also benefit from defining a clearer value proposition to members from becoming a CPA and investing in their membership annually. It should consider how this value varies for different member segments, especially those segments that have provided constructive feedback regarding their perceived benefits of membership. Examples of these segments that would benefit from this are public practitioners and regional members.

A review of comparable professional membership organisations⁶⁹ communication of the value of membership to prospective and current members highlights two areas of focus:

1. The products and services that members receive for their membership (i.e. resources, publications, education, events and support).
2. The unique value of membership to the member (i.e. insights, upskilling, professional networks, prestige, profile and brand).

These organisations typically communicate this through a dedicated page on their website and with more information in the annual reports.

CPA Australia differs from these organisations in the way it communicates return on investment and its value proposition to members. While CPA Australia outlines its business model and how value is created in its Annual Report, it does not have a dedicated web page or communication channel that states its value proposition to members. This may contribute to the views expressed by members who question value for money.

8.2.2.6 CPA Australia could review its member and staff codes of conduct and supporting material to be more specific

Further to the information set out in the Preliminary Report that referenced instances of inappropriate communication by members, the Review Panel received feedback that there have been instances of conduct by staff towards members that has led to frustration and disappointment. This indicates that the role of codes of conduct that set clear expectations of appropriate behaviour for staff and members should be reviewed, along with supporting guidance material. For these codes to be effective, appropriate behaviour needs to be modelled by CPA Australia staff and members and departures dealt with through the processes and consequences outlined in the codes.

CPA Australia has a dedicated code that addresses conduct which is derogatory to, or not in the best interests of, CPA Australia or its members.⁷⁰ This is intended to apply generally to the conduct of members, not directly in their professional practice, that might be inappropriate or not in the best interests of the

⁶⁹ From publically available information including websites and annual reports. Organisations include: CA ANZ (formerly The Institute of Chartered Accountants in Australia); American Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; CPA Canada; The Institute of Chartered Accountants in England and Wales; The Tax Institute; Australian Institute of Company Directors; Australian Medical Association; Engineers Australia Law Council of Australia; National Farmers' Federation.

⁷⁰ *CPA Australia Constitution.*

profession or membership. This would cover conduct of members towards one another and towards CPA Australia staff. There is also a code that applies to CPA Australia volunteers which is consistent with this code.⁷¹

CPA Australia's code covers a greater range of conduct than organisations that were reviewed.⁷² The reviewed organisations have provisions limited to the protection of clients (or patients) of the actual member and relate to conduct in that regard. CPA Australia also has mechanisms to implement and enforce the code that include written formal instruments, staff roles and powers of enforcement, including penalties.⁷³

The code has limitations in the context of reducing the incidence and frequency of disrespectful communication within the membership. It is unclear what derogatory and/or unethical behaviour is for the purposes of the code. As a result, it is likely to be counterproductive for CPA Australia to single a member out with action under the code without explicit guidance as to the circumstances that would likely result in a breach. Therefore, there is scope for more guidance on what conduct is and isn't appropriate under this code and the range of conduct that the code applies to.

CPA Australia has a Code of Conduct that applies to staff.⁷⁴ The Code of Conduct is a key policy that employees sign with their contracts of employment. It articulates appropriate employee behaviour, including towards members, and the values that need to be adhered to at all times. There is also a Service Charter that states that, "*people are at the heart of everything we do and service is personal.*"⁷⁵ All staff members are trained in these as part of their induction and there is ongoing training for front line staff as part of business as usual. There is also disciplinary action in the event of employee non-compliance with the code (as part of performance management processes).

Nevertheless, there is benefit in reviewing the staff code to make it complementary with changes to codes that apply to members.

8.2.2.7 CPA Australia advised that the 'Find a CPA function' was closed to protect public practitioners from unsolicited enquiries

CPA Australia's website has a 'Find a CPA' function.⁷⁶ This enables anyone to search for a public practitioner or financial planning specialist in their area and access their profile and their contact details. This is an opt-in service with ~22% of CPA Australia public practitioners having their profile and contact details searchable through the website function.⁷⁷

⁷¹ *Volunteer Code of Conduct*, CPA Australia.

⁷² From publically available information. Organisations include: CA ANZ (formerly The Institute of Chartered Accountants in Australia); American Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; CPA Canada; The Institute of Chartered Accountants in England and Wales; The Tax Institute; Australian Institute of Company Directors; Australian Medical Association; Engineers Australia Law Council of Australia; National Farmers' Federation.

⁷³ Forfeiture of membership, suspension with terms and conditions as to reinstatement, a fine not exceeding the maximum fine, admonishment, severe reprimand, cancellation or suspension of member benefits, restriction to trade under, display or utilise any IP of CPA, lower membership status, additional number of hours in a such course of Continuing Professional Development, undertake Quality Assurance, other penalty deemed appropriate.

⁷⁴ CPA Australia (October 2016) *Code of Conduct*.

⁷⁵ CPA Australia, *Service Charter*.

⁷⁶ CPA Australia, *Find a CPA*, viewed October 2017 at: <<https://www.cpaaustralia.com.au/about-us/find-a-cpa>>.

⁷⁷ Information provided by CPA Australia's Member Services portfolio staff.

CPA Australia removed the functionality from the website at 2pm on 23 February 2017. The function remained closed for between three to four months. The timing of the closure led some members to conclude that the function was shut down to prevent members communicating with other members.

CPA Australia advised that the functionality was temporarily removed for two reasons:

- Members who had opted in to the service had complained about being contacted by other members against their will. This was not the purpose for which they opted-in. This risked the legitimacy of the function as a means for the public to find a CPA for commercial and professional service purposes.
- There was an issue with the tool which slowed the functionality down and led to a poor user experience. CPA Australia is looking to invest in improvements to the tool to overcome this and to better engage public practitioners.

The 'Find a CPA' function is currently operating again on the website.

8.3 Recommendations

Bringing together the Review Panel's preliminary recommendations, stakeholder feedback and further research and analysis, the Review Panel makes the recommendations set out below.

Table 13: Summary of recommendations that appear in this section

Recommendations		
No.	Recommendation	Type
23.	Establish a Council of Presidents to improve member ability to engage meaningfully with the Board on CPA Australia's strategy	New recommendation
24.	Enable Divisions and Divisional Councils to better engage with members	Affirmed from Preliminary Report, with added detail
25.	Make Annual General Meetings accessible to all members	Affirmed from Preliminary Report
26.	Update CPA Australia's codes for appropriate behaviour by members and staff	New recommendation
27.	Periodically review costs of member services and how membership value is communicated	Affirmed from Preliminary Report

These recommendations are set out in detail below.

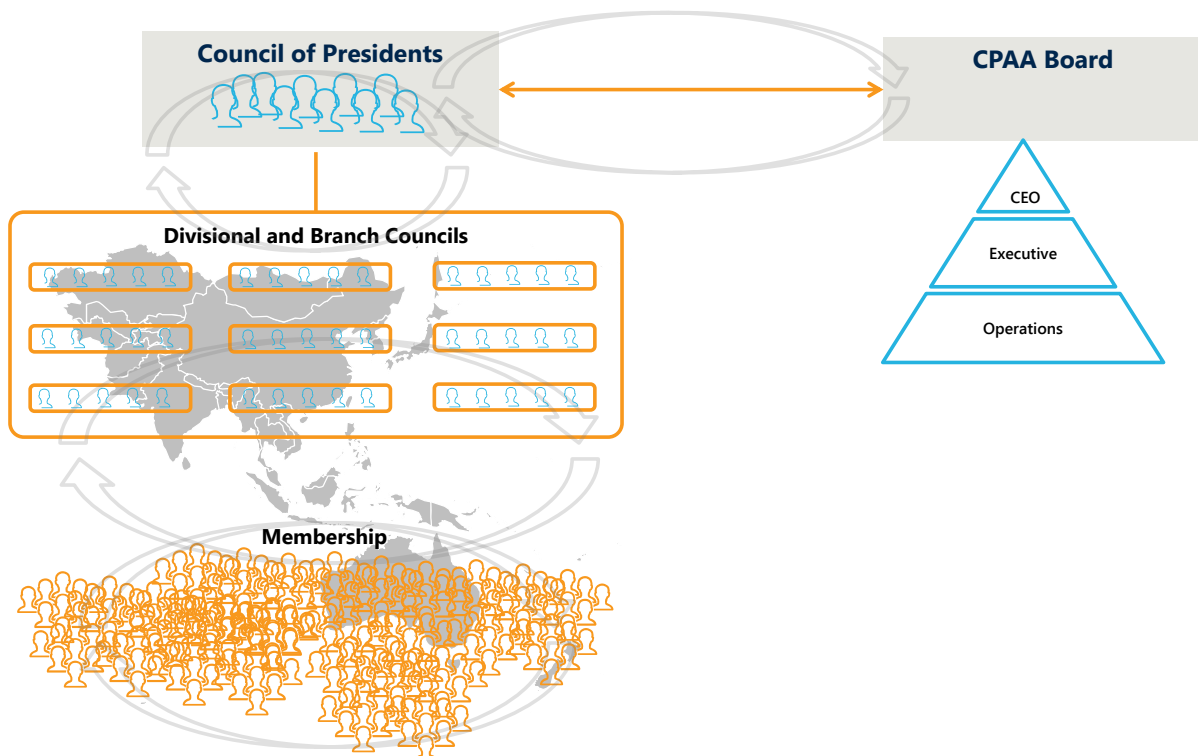
8.3.1 Establish a Council of Presidents to improve member ability to engage meaningfully with the Board on CPA Australia's strategy

Member engagement with organisational deliberations (e.g. corporate strategy) is facilitated through Divisional Councils, Representative Council and other informal mechanisms. While the Constitution allows for Divisional Council and Representative Council input into Board deliberations and CPA Australia strategy development, this input was not sought by the Board in a structured way.

CPA Australia should take steps to improve the mechanisms for members to effectively engage and influence the strategy and direction of the organisation in an ongoing way. Use of formal mechanisms by the previous Board to engage with members reduced in recent years. Members need to feel that their views are being heard and considered by the Board.

The Review Panel recommends the establishment of a Council of Presidents. The Council is to advise the new Board on strategic issues and opportunities, drawing on the views of members. Figure 12 sets out such a structure and how it would link to the membership and CPA Australia through the Board.

Figure 12: High level engagement structure for Council of Presidents



The Review Panel's recommendations are for CPA Australia to:

- Establish a Council of Presidents (Divisional and Branch) to provide advice to the Board on strategic issues and opportunities in an ongoing way with an emphasis on sharing the views and preferences of the membership (not just for the development of the 3-year Corporate Plan).
- Set the responsibility of the Council of Presidents to engage in two-way discussions with Divisional and Branch Councils and the CPA Australia Board.
- Set the composition of the Council of Presidents to include all Divisional and Branch Council Presidents.
- Set a mechanism for the Council of Presidents to self-select its Chair.

The Review Panel provides additional guidance for CPA Australia to achieve the outcomes of this recommendation:

- Provide for the meeting and deliberation process to include a frequency that enables proper coverage without being overly burdensome for Presidents or costly to CPA Australia (using videoconferencing facilities as much as possible).
- Provide the resources for the Council of Presidents to engage and collaborate including useful social and digital channels and budget for travel where necessary.

8.3.2 Enable Divisions and Divisional Councils to better engage with members

Divisional Councils have a clearly defined and important role to engage with members in their geographical areas. Each Division has an engagement plan that outlines specific engagement activities that have the support of the Division's General Manager. However, Divisional Councillors feel they could be empowered to have a more effective role in member engagement.

The Review Panel agrees that there is merit in allowing Divisional Councils to engage more directly with members in their Division and provide more tailored communications relevant to their Division. However, this needs to be balanced with privacy concerns and member expectations, particularly associated with the sharing of email addresses.

The Review Panel recommends that CPA Australia:

- Explore options to link members in all locations with an existing Branch or Division to ensure representation in currently unrepresented geographies. The options should take into account the cost implications that can flow from the international locations of some members.
- Support the Divisions, Branches and Divisional and Branch Councils to have more flexibility to engage with members through: increased consultation in the development of Divisional/Branch engagement plans and budgets; providing more flexibility to General Managers to access resources to respond to member engagement opportunities that arise; and a protocol that defines how Divisional Councils (through and with General Managers) can communicate with members.
- Create a digital presence (on the CPA Australia website or other channel) for members to follow activities and opportunities in their Divisions that they can engage with on an opt-in basis.

8.3.3 Make Annual General Meetings accessible to all members

The Review Panel recommends that CPA Australia implement processes and policies to make AGMs reasonably accessible to all members, especially when held outside of Australia.

The Review Panel provides additional guidance on what CPA Australia may implement to achieve this:

- CPA Australia to develop a clear rationale for the location and timing of future AGMs.
- The rationale to include considerations of cost to CPA Australia and members, home locations of members, business and growth imperatives, and member engagement in international locations.
- CPA Australia to provide sufficient lead time by announcing the location and timing of the next AGM well in advance, with lead time to take into account the holding of AGMs in locations outside of Australia.

- Reasonable measures be put in place, including the use of technology, to make the AGM accessible and to enable participation of those members who are unable to attend in person. This should include consideration of cost to CPA Australia and the procedural nature of AGMs.

8.3.4 Update CPA Australia's codes for appropriate behaviour by members and staff

The Review Panel found in its Preliminary Report that CPA Australia does not have a charter that explicitly governs the standards of behaviour of members and that the incidence and frequency of disrespectful communication warranted that one was required.

The Review Panel's further examination found that CPA Australia's Constitution has clauses that apply to the conduct of members. However, due to the high-level nature of these clauses, they do not and should not contain detail on the type of conduct that is unacceptable and unethical. These clauses also do not focus on conduct directed at CPA Australia staff.

The Review Panel finds that members in the past have had grievances with respect to communications between CPA Australia staff and members, notwithstanding that CPA Australia has a Code of Conduct and Service Charter dedicated to the behaviour of staff, including towards members.

The Review Panel recommends that:

- CPA Australia develops guidance that clearly states that the Professional Conduct provisions in the Constitution apply to conduct directed at staff and to one another.
- CPA Australia also clearly states in the guidance the types of member conduct towards staff and one another that are considered derogatory to members or CPA Australia, or are unethical.
- CPA Australia reviews its Volunteer Code of Conduct and staff codes of conduct for consistency, with a focus on members.

8.3.5 Periodically review costs of membership and member services and how membership value is communicated

The Review Panel's recommendation is that CPA Australia periodically reviews the cost of membership and member services and how the value of membership is communicated to members (e.g. services that are provided for free).

This may involve:

- Developing a clear member value proposition, including consideration of different member segments such as public practitioners and regional members.
- Benchmarking membership fees against comparable member organisations.
- Benchmarking specific fees for member services (e.g. professional development) against comparable organisations, and considering alternative pricing models for member services, where access is an issue (e.g. for regional members).
- Introducing mechanisms to report and communicate member value to members.
- Outlining the distinct value proposition of membership on key member communication channels including the website, annual report, invoices and brochures.

8.4 Final Recommendations Summary

The Review Panel's final recommendations are captured in the following table.

Table 14: The Review Panel's Governance Recommendations

Recommendations		
No.	Recommendation	Further Detail
23.	Establish a Council of Presidents to improve member ability to engage meaningfully with the Board on CPA Australia's strategy	<ul style="list-style-type: none"> Establish a Council of Presidents (Divisional and Branch) to provide advice to the Board on strategic issues and opportunities in an ongoing way with an emphasis on sharing the views and preferences of the membership (not just for the development of the 3-year Corporate Plan) Set the responsibility of the Council of Presidents to engage in two-way discussions with Divisional and Branch Councils and the CPA Australia Board Set the composition of the Council of Presidents to include all Divisional and Branch Council Presidents Set a mechanism for the Council of Presidents to self-select its Chair
24.	Enable Divisions and Divisional Councils to better engage with members	<ul style="list-style-type: none"> Explore options to link members in all locations with an existing Branch or Division to ensure representation in currently unrepresented geographies. Such options should take into account the cost implications that can flow from the international locations of some members Support the Divisions, Branches and Divisional and Branch Councils to have more flexibility to engage with members through: increased consultation in the development of Divisional/Branch engagement plans and budgets; providing some more flexibility to General Managers to access resources to respond to member engagement opportunities that arise; and a protocol that defines how Divisional Councils (through and with General Managers) can communicate with members Create a digital presence (on the CPA Australia website or other channel) for members to follow activities and opportunities in their Divisions that they can engage with on an opt-in basis
25.	Make Annual General Meetings accessible to all members	
26.	Update CPA Australia's codes for appropriate behaviour by members and staff	<ul style="list-style-type: none"> CPA Australia develops guidance that clearly states that the Professional Conduct provisions in the Constitution apply to conduct directed at staff and to one another CPA Australia also clearly states in the guidance the types of member conduct towards staff and one another that are considered derogatory to members or CPA Australia, or are unethical CPA Australia reviews its Volunteer Code of Conduct and staff codes of conduct for consistency, with a focus on members

Recommendations

27. Periodically review costs of member services and how membership value is communicated
-

9 Strategy and performance of CPA Australia Advice

9.1 Summary of Preliminary Report

The Review Panel's preliminary findings on the strategy and performance of CPA Australia Advice were set out in Chapter 9 of the Preliminary Report. This section summarises the Preliminary Report's findings.

9.1.1 Background

In July 2013, the Future of Financial Advice (FOFA) reform package was introduced by the Australian Government, which had an impact on the ability of accountants to provide financial advice. A transition measure was provided as an accountants' licensing exemption, to permit a recognised accountant to recommend the establishment or winding up of an interest in a self-managed superannuation fund (SMSF) without being licenced under the Australian Financial Services Licence (AFSL) regime. A recognised accountant was defined to include a full member of CPA Australia. This 'accountants' exemption' was removed in July 2016 and from this date, accountants had three options if they wanted to continue to provide financial advice, including advice in relation to SMSFs:

1. Apply to obtain their own AFSL.
2. Become an authorised representative of another entity's AFSL.
3. Refer clients that require financial product advice to an appropriately licenced entity or individual.

CPA Australia Advice was established in direct response to the removal of the 'accountants' exemption'. A wholly-owned subsidiary of CPA Australia, CPA Australia Advice is intended to provide members with a licensing solution should they wish to provide SMSF advice and to save them having to apply to obtain their own AFSL. The model developed by CPA Australia Advice is to charge members a fee to act as CPA Australia Advice authorised representatives. An authorised representative is able to provide fee-for-service advice in relation to a broad range of financial planning products. The authorised representative provides advice and maintains the relationship with the client. All reporting, compliance and license administration is conducted by CPA Australia Advice staff. In addition, CPA Australia Advice also provides business support tools, software, templates, professional development and, where applicable, product research.

9.1.2 Preliminary findings

The Preliminary Report made the following findings:

- The business case for establishing CPA Australia Advice articulated a strategic rationale.
- Performance of CPA Australia Advice has been below expectations.
- Concerns were raised that CPA Australia Advice's establishment would affect CPA Australia's status under the Professional Standards Scheme.

These findings are summarised below.

The business case for establishing CPA Australia Advice articulated a strategic rationale

The business case prepared for CPA Australia's Board articulated a strategic rationale for establishing CPA Australia Advice, which was to provide:

- Members with a platform to provide financial advice to their clients without having the compliance, reporting and administrative burden that accompanies holding an AFSL and Australian Credit Licence.
- A well-recognised and trusted brand name as an alternative to the financial planning arms of the retail and investment banks.
- CPA Australia with an additional future revenue stream to better provide for members' services in the long term.⁷⁸

The business case outlined the opportunity for CPA Australia to take the lead in developing a genuinely independent adviser group, given the low level of consumer confidence in the financial sector following recent media attention on financial advice scandals involving insurance companies and retail banks. Independent financial advisory services were seen as an emerging market, with the potential to enable public practitioners and financial advisors to provide a more comprehensive range of services.

Performance of CPA Australia Advice has been below expectations

Despite a well-articulated strategic rationale, CPA Australia Advice's performance suffered from a number of issues. It has struggled to convert expressions of interest to authorised representatives and position itself adequately with some of CPA Australia's membership. It was reported that since announcing CPA Australia Advice, CPA Australia received around 600 expressions of interest from members, however very few of these were converted to authorised representatives.⁷⁹ As at June 2017, there were 27 authorised representatives under CPA Australia Advice.⁸⁰ For this reason, revenue generated to date by CPA Australia Advice is significantly below the projections articulated in the business case. Through cost reductions, CPA Australia Advice has been able to reduce financial losses to less than those projected in the business case. In the financial year ending 31 December 2016, CPA Australia Advice had incurred a loss of \$5.7 million for the year and a combined trading loss of \$7.4 million since inception.⁸¹

Concerns were raised that CPA Australia Advice's operation would affect CPA Australia's status under the Professional Standards Scheme

A contentious issue in regard to the establishment of CPA Australia Advice was the impact on CPA Australia's Professional Standards Scheme (PSS) insurance for public practitioners. PSSs are administered by state based statutory bodies and a national regulatory agency, the Professional Standards Authority. PSSs cap the civil liability or damages of members of professional bodies if a court upholds a claim against them. In return for this claim cap, professional bodies make a binding commitment to monitor, enforce and improve the professional standards of their members, and protect consumers of professional services.

Each PSS is intended to remain in force for a number of years from its commencement. CPA Australia's current PSS has been in force since 2013 and expired in October 2017, following an application for

⁷⁸ CPA Australia (April 2015) *Board Paper: AFSL Business Plan*.

⁷⁹ Alice Uribe (June 2015) 'CPA Australia Advice inundated with enquiries' in *Independent Financial Advisor* <<https://www.ifa.com.au/news/14641-cpa-advice-inundated-with-inquiries>>.

⁸⁰ CPA Australia Advice, *CPA Australia Advice Summary of Licence Fee Revenue Since Inception*.

⁸¹ CPA Australia (2016) *Annual Report* <<http://cpaaustraliaannualreport.realviewdigital.com/?iid=151708#folio=1>>.

extension in October 2016. In January 2017, CPA Australia lodged an application for a new PSS with the Professional Standards Council (PSC).⁸² In March 2017, the PSC wrote to CPA Australia's Board to raise concerns regarding CPA Australia's ability to meet the legislative requirements to be considered a professional occupational association, specifically in relation to conflict of interest in regard to CPA Australia Advice.⁸³ Then in June 2017, it advised that it was *"unable to direct the proposed new scheme be published for public notification"* because it was seeking additional information from CPA Australia and as such, CPA Australia's PSS expired in October 2017.⁸⁴ The PSC wrote again to CPA Australia in June 2017 stating the governance findings of the Independent Review (this Review) will be important to its consideration of CPA Australia's PSS scheme application.⁸⁵ Further, in August 2017, the PSC wrote to CPA Australia advising that there was no impediment to CPA Australia applying for a new Scheme (in relation to CPA Australia Advice). However, it noted that this is distinct from an approval and that issues relevant to administration of a PSS will still need to be considered (in approval of a new PSS for CPA Australia).⁸⁶

In August 2017, CPA Australia announced a group members' Professional Indemnity Excess Insurance Policy for Australian public practitioners to provide for insurance cover until a new PSS scheme can be put in place. CPA Australia has stated that this new policy *"will provide members with an additional layer of protection over and above the existing levels of professional indemnity insurance (PII) they are already required to hold as part of the requirements of holding a public practice certificate"*.⁸⁷

9.1.3 Preliminary recommendations

On the basis of the preliminary findings, the Review Panel's preliminary recommendation was for CPA Australia to undertake a comprehensive post-implementation evaluation of CPA Australia Advice. The Review Panel recommended that CPA Australia's Board investigates options for CPA Australia Advice as a matter of priority to minimise future losses.

9.2 Updated findings

Since publication of the Preliminary Report, the Review Panel has heard from members and reflected further on preliminary recommendations on CPA Australia Advice. The Review Panel's findings from these considerations are set out below.

9.2.1 Member feedback

After the Preliminary Report's publication, the Review Panel received submissions from members on the Preliminary Report's findings and recommendations. In relation to CPA Australia Advice, the following themes emerged:

⁸² CPA Australia (June 2017) *Limited Liability Scheme Guidance Note*.

⁸³ Letter from Brian Rayment QC, Chair Professional Standards Council to Tyrone Carlin, CPA Australia Chairman (17 March 2017).

⁸⁴ CPA Australia (June 2017) *Limited Liability Scheme Guidance Note*.

⁸⁵ Letter from Deen Sanders, CEO Professional Standards Councils to Jim Dickson, CPA Australia Chairman (19 June 2017).

⁸⁶ Letter from Deen Sanders, CEO Professional Standards Councils to Adam Awty, CPA Australia interim CEO (3 August 2017).

⁸⁷ CPA Australia (August 2017) *Announcement from the Board of CPA Australia*.

- **Transparency in the establishment and operations of CPA Australia Advice.** Some members are concerned that CPA Australia Advice was established to unjustly enrich former Directors and executives, and whether it was in the best interests of CPA Australia and its members.
- **Disclosure of CPA Australia Advice's business case.** Some members are concerned the financial losses incurred by CPA Australia Advice are significant and result in a misapplication of member funds. They wish to see the business case to understand the extent of projected losses and assess if due care and skill was exercised in the decision.
- **The continued viability of CPA Australia Advice.** There is significant concern around the ability of CPA Australia Advice to overcome current deficiencies and present value to public practitioners who look to financial advice as a way to augment their client offer.

From feedback received, members appreciated the Preliminary Report's recommendation to have a separate, comprehensive evaluation for CPA Australia Advice. Nevertheless, some members remain concerned that CPA Australia Advice is not viable.

A snapshot of qualitative member feedback is provided below.



There needs to be better disclosure of CPA Australia Advice's financial reports, including remuneration paid to the Board and Management.

Be transparent about CPA Australia Advice's financials. We need to be in a position to determine whether it should be wound up.

CPA Australia Advice's business plan needs to be independently reviewed, so as to ensure Members' funds aren't being used inappropriately.

There was mixed feedback as to the recommendation to conduct a post-implementation review of CPA Australia Advice. This likely reflects the view of some members that CPA Australia Advice should be wound up.

9.2.2 Updates to findings

After the Preliminary Report's publication, the Review Panel conducted further examination and analysis into several areas, including disclosure of the business case, overlap between Directors on the Board of CPA Australia and CPA Australia Advice and the impact of CPA Australia Advice on CPA Australia's Professional Standards Scheme. This section sets out the Review Panel's findings in relation to these areas.

9.2.2.1 The full release of CPA Australia Advice's business case is a matter for CPA Australia's Board

In the Preliminary Report, the Review Panel summarised CPA Australia Advice's business case in Section 9.2.1. The business case outlined the opportunity for CPA Australia to take the lead in developing a genuinely independent financial advisory service, given the low level of consumer confidence in the financial sector following recent media attention and financial advice scandals.

As articulated above, some members have questioned whether the business case can be made publicly available. The Review Panel understands this request is driven by concerns about the extent of financial losses projected by the business case and whether due care and skill was exercised by the Board in making this decision in the best interests of the organisation and its members.

CPA Australia Advice's business case and financial statements were provided to the Review Panel. As stated in the Preliminary Report, the Review Panel's examination of relevant documentation found no evidence that ulterior motives played a role in CPA Australia Advice's establishment. Upon further examination, the Review Panel also found no evidence that the decision to establish CPA Australia Advice was made without a focus on the interests of members and CPA Australia.

In the interests of providing members with more transparency around CPA Australia Advice's business case, the Review Panel can reveal the business case developed for CPA Australia Advice was put to CPA Australia's Board in April 2015. It articulated that:

- CPA Australia Advice would generate a loss for the period 2015-18 and would generate a profit for the first time in 2019, before providing an overall return on investment by 2023.
- By 2017, CPA Australia Advice would have approximately 250 authorised representatives and the number of authorised representatives is expected to grow to 1,360 by 2019. The business case rationalised the projected authorised representative number by estimating that 17,000 CPA members were public practice members in Australia, of which 6,800 may require some sort of licencing and 20 per cent of those members would be likely to take up CPA Australia Advice licencing.
- CPA Australia Advice would commence with 18 staff in 2016, peaking at 42 staff in 2017 and projected to reduce to 30 staff by 2019.
- The value proposition was to provide public practitioners with an affordable licencing and advice model to enable them to build additional non-compliance related income streams for their practice, as well as allowing them to continue to provide financial advice once the 'accountants' exemption' was removed.
- Public practice sustainability was a core goal, as was protecting the public interest by providing an independent and trusted alternative source of advice for the public, given the financial advice scandals. This was in line with the CPA Australia corporate plan to protect the public interest and ensure the sustainability of members' careers.

The Preliminary Report identified that members continue to be concerned that the impact on the PSS as a consequence of CPA Australia Advice was not adequately considered as a risk and mitigated against as part of the CPA Australia Advice's business case. In relation to professional indemnity insurance, the business case identified a key risk that it may be difficult to obtain insurance due to a number of providers withdrawing from the market place, leading to significant cost increases. However, the inability to obtain professional indemnity insurance under the Professional Standards Council was not identified as a risk.

The Review Panel notes that in relation to the 16 key risks identified in the business case, the mitigation strategies were not well articulated. CPA Australia should consider strengthening the risk identification and mitigation strategy sections of its business cases.

Some information provided to the Review Panel is commercial-in-confidence and the Review Panel has not included it in this Final Report. This is to avoid the risk of adversely affecting the performance of CPA Australia Advice or diminishing its value should CPA Australia choose to sell the business. The full release of CPA Australia Advice's business case is a matter for CPA Australia's Board.

9.2.2.2 The timing and lodgement of CPA Australia Advice's financial statements was 14 days late

CPA Australia Advice filed and lodged a Profit and Loss Statement, Balance Sheet and Audit Report with ASIC before the required deadline.⁸⁸ The Review Panel has been informed by senior executives of CPA Australia that CPA Australia Advice subsequently became aware that a full copy of the financial report was required to be lodged with ASIC.⁸⁹ This was 14 days after all ASIC Forms were required to be filed. The Review Panel has been informed that this oversight was due to it being the first time that these ASIC Forms were submitted pursuant to CPA Australia Advice's AFSL. While the Review Panel accepts this was an oversight, it does not reflect well on CPA Australia Advice and CPA Australia, both of which have an obligation to uphold the high standards of the accounting profession.

9.2.2.3 There has been some progress on CPA Australia's new Professional Standards Scheme and a Professional Indemnity Excess Insurance Policy is in effect

Since the Preliminary Report's publication, there has been some progress on CPA Australia's new Professional Standards Scheme (PSS).

CPA Australia's current PSS expired on 7 October 2017. During the preparation of the Preliminary and Final Report, CPA Australia's application for a new scheme was under consideration.

The Professional Standards Council (PSC) commenced the public notification process for CPA Australia's proposed new PSS on 27 September 2017. The public notification document explains the scope and operation of the PSS. Comments on the proposed scheme closed on 25 October 2017.

As explained in Section 9.1.2, to manage the gap between expiry of the current PSS and the commencement of the new PSS, CPA Australia arranged a Member Professional Indemnity Excess Insurance Policy for members who are public practice certificate holders. The Member Professional Indemnity Excess Insurance Policy was effective from 8 October 2017 and provided at no additional cost to affected members. This bridging policy provides members with an additional layer of protection over and above existing levels of Professional Indemnity Insurance they are already required to hold.

The Review Panel has examined correspondence from the PSC to CPA Australia and while there were initial inquiries after the lodgement of CPA Australia's application in January 2017 as to whether the operation and ownership of CPA Australia Advice may prejudice the PSS application, upon further consideration the PSC subsequently advised that the existence of CPA Australia Advice of itself was no impediment to CPA Australia making an application for a PSS.

⁸⁸ ASIC Form 70 and 71.

⁸⁹ ASIC Form 388.

9.3 Recommendations

Bringing together the Review Panel’s preliminary recommendations, stakeholder feedback and further research and analysis, the Review Panel makes the following recommendations, as set out in Table 15.

Table 15: Summary of recommendations that appear in this section⁹⁰

Final CPA Australia Advice Recommendations		
No.	Recommendation	Type
28.	Carry out a comprehensive post-implementation evaluation of CPA Australia Advice	Affirmed from Preliminary Report, with added detail
29.	Develop a skills matrix for CPA Australia Advice’s Board	New recommendation

Each recommendation is explained in further detail below.

9.3.1 Carry out a comprehensive post-implementation evaluation of CPA Australia Advice

In the Preliminary Report, the Review Panel observed CPA Australia Advice had a combined trading loss of \$7.4 million since inception. Although this compares favourably to business case projections, it represents a significant financial loss. The Preliminary Report found CPA Australia did not take active steps to address areas of underperformance, such as reviewing reasons behind poor uptake or reevaluating the venture’s cost base.

The Review Panel recommends a post-implementation review of CPA Australia Advice, which is likely to canvas:

- Whether the strategic rationale articulated in the business case is being met.
- Financial and non-financial outcomes.
- Issues that impacted performance, such market demand, market entry strategy, pricing strategy, appetite for a fee-for-service model, cost structure and board performance.
- Action needed, including CPA Australia Advice’s future, as well as further steps to minimise financial loss.
- Lessons learned to inform decisions about future ventures.

⁹⁰ These recommendations’ wording has changed slightly since their publication in the Preliminary Report. For the original wording, refer to Section 9.1.3, ‘Preliminary Recommendations’.

9.3.2 Develop a skills matrix for CPA Australia Advice's Board

CPA Australia Advice is a different business from CPA Australia and is not a member-based organisation. CPA Australia Advice's commercial objectives, imperatives and pressures lend themselves to a Board with a different overall skillset from that of CPA Australia's Board. To identify this skillset and select Directors who possess the required skills, the Review Panel recommends a specific skills matrix be developed for CPA Australia Advice's Board. The CPA Australia Board would be expected to appoint the Board of CPA Australia Advice, recognising the proposed Board Nomination Committee has been designed for the purpose of nominating Directors to CPA Australia's Board.

9.4 Final Recommendations Summary

The Review Panel's final CPA Australia Advice recommendations are captured in the following table.

Table 16: The Review Panel's CPA Australia Advice Recommendations

Final CPA Australia Advice Recommendations		
No.	Recommendation	Further Detail
28.	Carry out a comprehensive post-implementation evaluation of CPA Australia Advice	
29.	Develop a skills matrix for CPA Australia Advice's Board	

Appendix A Terms of reference

MEDIA RELEASE



TERMS OF REFERENCE FOR INDEPENDENT REVIEW PANEL

On 16 June 2017 the Board of CPA Australia announced an independent panel to conduct a review of claims raised by members and other stakeholders.

These include concerns relating to:

- Governance, including election of directors, term limits, independence of the Representative Council and compliance
- Remuneration, including disclosures, compliance with laws and accounting standards and benchmarking processes
- Marketing strategy and expenditure, including consistency with Board approved strategy and appropriateness of expenditure
- Other matters the reviewers consider appropriate.

The Board believes it is in the best interests of members, staff and the profession that this review is undertaken and that governance structures are considered.

The independent panel will receive all the resources it needs to do its work and will be able to appoint expert consultants as necessary. It will operate independently of the Board and the executive, but will receive their full cooperation.

OBJECTIVE

CPA Australia is one of the world's largest accounting bodies, with a global membership of more than 160,000 members working in 118 countries.

CPA Australia exists to benefit members. As an accreditation body, working within a trusted profession, matters of governance go to the heart of our operations.

The objective of this Independent Review is to ensure claims that impact the reputation of the organisation, the value of the accreditation, and the confidence of members are properly reviewed and addressed.

SCOPE

The independent panel will consider the claims raised by members and stakeholders in relation to governance, remuneration and marketing strategy and expenditure. It will, among other things:

- Review claims raised by members and other stakeholders
- Assess Board and management compliance with the CPA Australia Constitution, By-Laws and policies
- Assess whether the current Constitution, By-Laws and policies align with best practice and member expectations
- Make recommendations for improvements

Recommendations that relate to governance arrangements, including the Constitution, will be brought to the 2018 Annual General Meeting for consideration by members.

BE HEARD.
BE RECOGNISED.



MEDIA RELEASE



INDEPENDENT REVIEWERS

The review panel will be Chaired by Ian McPhee AO PSM, with panel members Su McCluskey and Maryjane Crabtree. Professor Bob Baxt AO will act as expert advisor on governance.

Ian McPhee AO PSM (Chair)

Ian McPhee is a company director, audit committee member, honorary professor at the Australian National University, and has also undertaken governance reviews in the public and private sectors. He was the Auditor-General for Australia during the period 2005-15, and prior to that role was a Deputy Secretary in the Department of Finance.

Su McCluskey (Member)

Su McCluskey is a Director of Australian Unity and the Foundation for Young Australians, Chairman of Energy Renaissance and a member of the Ministerial Advisory Council on Skilled Migration. Su is a member of the independent review of the NSW Regulatory Policy Framework and was a member of the Harper Review of Competition Policy and the Regional Telecommunications Independent Review Committee. She was previously the CEO of the Regional Australia Institute, Executive Director of the Australian Government Office of Best Practice Regulation, and has held senior roles with the Business Council of Australia, the National Farmers' Federation and the Australian Taxation Office. She is a Fellow of CPA Australia.

Maryjane Crabtree (Member)

Maryjane Crabtree a director of the Law Institute of Victoria and chair of its Corporate Governance Committee. She has extensive experience on boards and Ethics Committees in the government and not for profit sectors. Maryjane is Deputy President of Epworth Healthcare.

Professor Bob Baxt AO (Expert Advisor)

Bob Baxt is chairman of the Law Committee of the AICD, a member of the Executive of the Business Law Section of the Law Council of Australia, a professorial Fellow of the University of Melbourne, and a former Chairman of the Trade Practices Commission. A consultant (and former partner) at Herbert Smith Freehills lawyers, he is an expert practitioner and academic in trade practices, corporate law and taxation law.

CONSULTATIONS

The independent panel will have full and ready access to any information it requires and will consult broadly with members as part of the review process. It will have the ability to engage with any member.

Submissions will be invited regarding matters covered within the Terms of Reference.

A consultative group of members will be formed, comprising Divisional Presidents, or their representatives, and other members as the independent panel deems appropriate.

FINAL REPORT AND TIMING

A preliminary report will be delivered by **Friday, 15 September 2017**. Timing of the final report is subject to the independent panel.

The panel will release a report to members detailing findings and recommendations.

BE HEARD.
BE RECOGNISED.



2

Appendix B List of stakeholder consultations

B.1 Stage 1 – Preliminary Report

Table 17 lists the stakeholder consultations undertaken by the Review Panel. To protect individuals' privacy, in most instances, the names of individual members or stakeholders have been removed.

Table 17: List of stakeholder meetings, Stage 1

Stakeholder list – Stage 1
CPA Divisional Councils
Australian Capital Territory Divisional Council
Divisional Presidents
New South Wales Divisional Council
Northern Territory Divisional Council
Queensland Divisional Council
South Divisional Council
Tasmania Divisional Council
Victorian Divisional Council
Western Australia Divisional Council
China Divisional President
CPA Board & Staff
CPA Australia Board (including CPA Australia Advice Board Director)
CPA Australia Acting CEO
CPA Australia COO
CPA Australia Executive General Manager, Brand
CPA Australia General Council
CPA Australian State and Territory General Managers
CPA Australia GM Victoria

Stakeholder list – Stage 1

CPA Australia General Manager of Social Media and Content

CPA Australia Deputy CFO

Individual members & Other Stakeholders

Members (anonymity requested)

Australian Securities and Investments Commission

'Board Spill Group'

IFAC

Past Presidents Group

Professional Standards Australia

Tax Practitioners Board

B.2 Stage 2 – Final report

Table 18: List of stakeholder meetings, Stage 2

Stakeholder list – Stage 2

CPA Divisional Councils

Australian Capital Territory Divisional Council

Divisional Presidents (two occasions)

New South Wales Divisional Council

Northern Territory Divisional Council

Queensland Divisional Council

South Divisional Council

Tasmania Divisional Council

Victorian Divisional Council

Western Australia Divisional Council

China Divisional President

European branch

Stakeholder list – Stage 2

CPA Board & Staff

CPA Australia Board

CPA Australia Acting CEO

CPA Australia COO, Member services

CPA Australia General Manager of Membership

CPA Australia General Manager, External Positioning

CPA Australian State and Territory General Managers

CPA Australia Interim CFO

CPA Company Secretariat

CPA General Counsel

Representative Council

Nom and Rem committee

Individual members & Other Stakeholders

'Board Spill Group'

Past Presidents Group

Professor Andrew Clarke