

CPA Australia Independent Review

Preliminary Report

14 September 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 Executive summary

Introduction to this Review

CPA Australia is a large, international member-based professional accounting organisation. In 2016 it had more than 160,000 members and annual revenue of more than \$180 million. Its membership includes public practitioners, members working in industry, academia, the public and not-for-profit sectors, and student members that are studying accounting, a related discipline or for their CPA qualification. CPA Australia's members are based in some 118 countries and it plays an important global role in accounting and business practice. The core services CPA Australia provides to members are accreditation, education, training, technical support and advocacy.¹

On 3 July 2017 CPA Australia released Terms of Reference² and named members of an Independent Review Panel (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 this Review 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:

- governance
- remuneration
- marketing strategy and expenditure
- strategy and performance of member services and engagement
- strategy and performance of CPA Advice.

In undertaking its review, the Review Panel has undertaken consultation, research and analysis to build an evidence base within each stream of work. The Review Panel notes that many of the issues subject to review have evolved over a period of time and under the governance of various Boards. The Review Panel has:

- consulted with members of CPA Australia and its key stakeholders – over 25 stakeholder group consultations, detailed written submissions from the majority of Divisional Councils, and more than 1,770 submissions recorded through the website
- reviewed internal CPA Australia documents and data – desktop review and analysis of CPA Australia's internal documents, as well as financial and operational data requested by the Review Panel
- researched a number of comparable organisations – research, analysis and benchmarking of the strategy, practices and performance of comparable professional membership organisations.

¹ CPA Australia Limited, 'About Us', <<https://www.cpaaustralia.com.au/about-us>>

² See Appendix A

Scope of the Preliminary Report

This Preliminary Report provides findings and preliminary recommendations. The Review Panel was asked to provide a preliminary report by 15 September 2017 with the timing of the Final Report subject to the Review Panel (likely by December 2017).

It is the intention of the Independent Review in this report to provide an assessment of CPA Australia in the defined areas for the Review, with preliminary 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 to be commercial-in-confidence and/or subject to third party contractual arrangements.

This Preliminary Report does not offer definitive conclusions to all of the matters listed above. Nevertheless, preliminary recommendations have been developed for findings that are indicative of the direction improvements should take. Final recommendations, including option analysis where relevant, will be set out in the Final Report.

Themes from the Review

The message from members of CPA Australia is clear: members expect 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. This reflects member views about their own professional organisation being at the forefront of good governance practice, against the background of changing legislative standards and community expectations.

The Board of CPA Australia has received a range of negative comments from respondents. This is due to its role in sanctioning and oversighting the strategies that have caused the damage to the brand. In the eyes of many, the Board has allowed the organisation to lose focus on its role of supporting members and the services they provide. In this context the former Chief Executive Officer (CEO), while recognised as a person with acknowledged leadership qualities, was seen as having largely unconstrained influence on the direction of the organisation.

It is fair to say that, over time, the Board and the then CEO lost touch with a large cohort of the membership of CPA Australia, particularly (but not exclusively) public practitioners. There was no particular single defining moment in this change. Rather, an accumulation of factors resulted in many members, Divisional Presidents, Councillors and senior staff feeling powerless and without any real voice in the organisation and its direction. 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.

The other notable observation of the Review Panel is that, when under pressure, the Board and CPA Australia has commonly defaulted to the minimum standard of disclosure. This has occurred in response to significant issues raised by members and the media, rather than giving emphasis to transparency and the likely interests of the membership.

Nevertheless, there has also been recognition that CPA Australia has grown in size, global footprint and revenue. It has acted as an advocate for the accounting profession nationally and internationally. Also, it continues to provide a valuable range of professional development and networking opportunities for members. In particular, CPA Australia has been attractive to many younger and prospective members due to strategies that were adopted. It has built profile and recognition as a strong brand, despite the fallout from recent events.

The current President and Chairman of CPA Australia, Mr James Dickson, has acknowledged that recent months have been particularly challenging for CPA Australia and its members. Mr Dickson appreciates that these circumstances have been frustrating for the membership, and for that has apologised.³

It is the Review Panel’s view that the position of CPA Australia is recoverable and that the Board has lately heard the message and taken positive first steps under the chairmanship of Mr Dickson. These include steps to:

- renew board membership
- implement revised CEO arrangements
- appoint independent members of the Nomination and Remuneration Committee
- revise the composition of the Representative Council
- allow the Representative Council more meaningful and timely access to documents supporting the process of appointment, including the board skills matrix, applicant lists and assessment.

Additional steps still will need to be taken to resolve the negative impacts of recent events and publicity and set CPA Australia back on course as a successful international professional membership organisation. An emphasis on member communication and respectful engagement will be an important part of the rebuilding of CPA Australia and the strength of its brand going forward.

Findings and preliminary recommendations

Table 1 provides a summary of the findings and preliminary recommendations for each stream considered by the Review.

Table 1: Review findings and preliminary recommendations

Section	Details
Governance	
Current state overview	<p>The standards of conduct expected of corporations and their directors have increased over the years. It is incumbent on all organisations today to pursue the adoption of sound standards of corporate governance.</p> <p>A previous governance review for CPA Australia conducted in 2006 identified imperatives for reform and 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. The 2006 review resulted in a substantial overhaul of CPA Australia’s Constitution, the primary document which in partnership with the By-Laws, sets out CPA Australia’s governance arrangements.</p> <p>The 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 and can provide guidance to the Board on member issues and issues concerning CPA Australia’s affairs (under specific conditions). The Divisional Councils are advisory bodies, responsible for serving and representing members by connecting with the broader divisional membership base. In addition to these governance bodies, CPA Australia also has Board Committees, Advisory Committees and a member Compliance Committee.</p>

³ Evidence provided to the Senate Economics Legislation Committee, Canberra, on 5 September 2017

Section	Details
	<p>Many members feel governance of CPA Australia has fallen short of their expectations. Feedback on CPA Australia’s governance highlighted a number of concerns including the appointment of governance bodies’ office holders, influence of the Board on other governance bodies, the transparency of Board conduct and decisions, and the possibility that directors had not been properly appointed or exceeded term limits.</p>
Findings	<p>CPA Australia’s Constitution potentially gives the Board a high level of influence over the Representative Council through a number of links. These links give the Board influence in the Representative Council’s composition, and create a connection between the Board and the mechanism to appoint the Board. However this connection is not uncommon. Other leading member-based organisations similarly have some connection between the Board and the mechanism to appoint the Board though the type and extent of connection varies.</p> <p>The appointment and reappointment of current Directors has followed the Constitution but the structural arrangements would benefit from further review. The term of appointment for Directors under the CPA Australia’s Constitution is three years and permits two further terms of three years each. Reducing the potential duration of board service to 6 years would, in particular, align with the duration of potential total service of both the Representative Council and the Divisional Council. It would also provide increased opportunity for other members to serve.</p> <p>Members raised concerns that a number of Directors have exceeded their allowable tenure. These concerns relate to the interpretation of certain provisions in CPA Australia’s Constitution. Although there is no evidence to suggest that any Directors have exceeded their tenure, given the complexities associated with reading and applying the transitional provisions in CPA Australia’s Constitution, the circumstances surrounding Directors’ tenure under transitional arrangements could have been better explained to members.</p> <p>Members also raised concerns about the appointment of Mr Tim Youngberry. Mr Youngberry was appointed to a casual vacancy Board. The Review Panel is satisfied that Mr Youngberry's appointment was made properly by the Board under article 60(b) of the Constitution, supported by legal advice.</p> <p>An extension of the presidential term may enhance good governance. Longer standard terms of office may assist presidents to increase their "in-role" effectiveness and enable them to develop a robust and healthy working relationship with the CEO.</p> <p>The Representative Council needs to have a more meaningful role in the appointment of Board Directors. The design of the nomination and appointment process, and recent practice, featured limited Representative Council oversight. The Nomination and Remuneration Committee has a number of responsibilities relevant to Directors’ nomination and appointment. This means the Representative Council’s main functions in the nomination and appointment process are to ensure due process has been followed and vote on behalf of members to appoint Directors. However, recent practice has meant that the Representative Council’s opportunity to apprise themselves of all relevant material prior to voting has been limited. Steps have been taken recently by the Board to provide greater transparency and oversight to this process.</p> <p>CPA Australia’s Board could have better handled a number of governance-related issues. In particular, the Board was slow to respond publicly to issues that detracted from CPA Australia’s standing. The Board should have been more transparent in communicating elements of strategy and decisions made on various contentious issues, such as remuneration, in recognition of CPA Australia’s status as a member-based organisation. The Board should also give itself the opportunity to explore issues or concerns during meetings, as appropriate without the presence of management.</p>

Section	Details
<p>Preliminary recommendations</p>	<p>CPA Australia should review the Representative Council’s composition to ensure it is meeting the requirements of independence from the Board and reflecting diversity of membership. It should also consider extending the role of the Representative Council in providing guidance and advice to the Board. Such design changes would simplify and strengthen CPA Australia’s governance system.</p> <p>Concerning Board appointments, CPA Australia should maintain Directors’ three year term but reconsider the appropriate number of further terms for Directors and the President. In addition to the changes which CPA Australia’s Board has made this year, further changes should be made to practice to allow the Representative Council to have timely and meaningful consideration of applicants. The Board skills matrix and continuing professional development requirements should also be kept under review for continuous improvement.</p> <p>To continue this momentum across the Review’s Terms of Reference, a Review Implementation Committee should be established. While the precise composition of a review implementation committee is a matter for the Board, the Review Panel has in mind a structure which has a mixture of Board members, well-respected members with Board and organisational transformation experience, and CPA Australia staff.</p> <p>In terms of changes to CPA Australia’s governance practice, the organisation should review its approach to issues management. Time with no management present (in-camera) should also be allotted at meetings of Directors.</p>
<p>Remuneration</p>	
<p>Current state overview</p>	<p>The 202B disclosures issued in July 2016, showed that the CPA Australia, CPA Advice and subsidiaries’ Directors and the former CEO were paid \$6.77m for services in 2016⁴. For consolidated financial statement reporting purposes, Directors of foreign subsidiaries that are not considered Key Management Personnel KMP of CPA Australia Limited Group are excluded, leaving a disclosed KMP remuneration of \$5.5m. On separation with the former CEO in 2017, CPA Australia paid a contractual employment benefit of \$4.9m which is equivalent to 3 years’ salary.</p> <p>The Nomination and Remuneration Committee approves the remuneration framework and recommends remuneration levels for the organisation. The Board approve remuneration levels for the Board, CEO and all other employees. The CEO has the delegated power to agree senior executive remuneration. There was minimal disclosure of the remuneration process and outcomes to members in annual reporting; this is not unusual for organisations of this kind but it is noteworthy that community expectations in relation to disclosure are changing.</p>
<p>Findings</p>	<p>The CPA Australia and CPA Advice Board remuneration is above the expectations of many members and those of benchmarked member-based organisations used in the Review.</p> <p>External remuneration consultants found that President’s remuneration was above benchmarks, but Director remuneration was not. The appropriateness of the benchmarks used by external consultants needs to be reviewed. The total Board remuneration is above benchmarks, though this is due in part to CPA Australia having a larger Board than some comparable organisations.</p> <p>The former CEO’s remuneration and payout was well above the benchmarks and has drawn substantial public criticism from many members. The CEO role was designed by CPA to be a public-facing, highly engaged, international role. The CPA Australia Board considered the former CEO a successful selection given the improved brand recognition. The annual remuneration paid to the former CEO, including CPA Advice remuneration, was above most</p>

⁴ CPA Australia, ‘Schedule 202B prepared for members for the year ended 31 December 2016’.

Section	Details
	<p>member-based and private benchmarks. The \$4.9m separation payment made upon the former CEO's departure was well above what would be considered standard for a CEO position. CPA Australia's opinion regarding the required payment at the time of separation was that to refuse the payment would be a breach of contract.</p> <p>Senior CPA executives were paid more than comparable positions at other member-based organisations. The total KMP remuneration of CPA Australia and CPA Advice is high in absolute terms when compared to both member-based and private organisations. However, it is not unreasonable when compared with other member-based organisations as a percentage of total revenue.</p> <p>CPA Australia's disclosure of KMP remuneration on an annual basis satisfied reporting requirements but was limited. Presenting KMP remuneration as an aggregated total satisfied the requirements of the accounting standards (AASB124) and the Corporations Act (Cth). However, it does not provide members and stakeholders with sufficient information to meet their expectations of a member-based professional services organisation.</p>
<p>Preliminary recommendations</p>	<p>Continue to remunerate the Board of Directors, but do not benchmark this remuneration to the Auditor-General of Australia (A-G), as this is no longer considered an appropriate benchmark. Mention of the A-G should be removed from CPA Australia's Constitution. The benchmarking of Director remuneration should continue to be undertaken annually and should include comparisons to member-based organisations.</p> <p>The CEO's salary should be based on organisations relevant to CPA Australia's context. Changes in the CEO's salary and payment of short-term incentives need to be aligned with changes in membership and revenue, as well as focused on achieving member engagement. Separation payments should be conservative and in-line with benchmarks.</p> <p>Disclosure of Director and senior executive remuneration should be above the minimum requirements set in the Corporation Act (Cth) and AASB124. The Board has now committed to presenting individual remuneration and explaining remuneration procedures to improve transparency.</p>
<p>Marketing strategy and expenditure</p>	
<p>Current state overview</p>	<p>CPA Australia undertakes marketing activities to assist in enabling delivery of its Corporate Plan. While there is no single overarching marketing strategy for the organisation, there are processes to set individual marketing strategies and expenditure levels to fit with CPA Australia's organisational goals.</p> <p>Marketing is a significant investment for CPA Australia. CPA Australia spends around 17% of its revenue on marketing activities (broadly defined) amounting to around \$30m in 2016. The activities that comprise these investments are delivered by six teams across the two Chief Operating Officers' (COO) portfolios. CPA Australia engages in a wide range of marketing activities across business development and events, digital channel management, content and publishing, member marketing and brand building campaigns and activities.</p> <p>Members express concerns about marketing activities and expenditure. The member concerns relate to the overall strategies, specific marketing activities, the level and direction of expenditure and governance practices.</p>
<p>Findings</p>	<p>CPA Australia's marketing objectives and overall expenditure are consistent with comparable organisations, and many of the marketing activities and investments have been appropriate and appear to have a measurable return. However, some of the more prominent activities, while assisting to differentiate CPA Australia, have departed from those of similar organisations and what members expect. These major activities – including large sports sponsorships and brand building activities centred on the former CEO –were collectively a</p>

Section	Details
	<p>sizeable component of CPA Australia’s marketing expenditure and have been a source of tension for members and the public.</p> <p>There was an over-emphasis on marketing and brand building activities that centred on the former CEO. The individual brand has prominence over the CPA Australia brand and this has created tension and criticism amongst members. While the high level strategy to which these relate appears sound, a brand centred on an individual creates financial and reputation risks for CPA Australia. When the former CEO left the organisation, the investment in the branding activities was essentially lost. The message from members is clear – excessive brand personalisation should be avoided.</p> <p>CPA Australia lacks a clear value proposition to all member segments for marketing activities. It also needs to better engage members in marketing activities and investments. Failure to do this has contributed too many of the member concerns.</p> <p>The organisation structure also impacts marketing effectiveness and efficiency. Unlike comparable organisations, the structure of marketing units is fragmented and without executive level ownership. This likely adds complexity and cost and prevents proper checks and balances.</p>
<p>Preliminary recommendations</p>	<p>CPA Australia should invest in strategically aligned marketing activities and strengthen processes and evaluations to track alignment and achievement against strategic goals. CPA Australia should also continue to invest in marketing activities that differentiate it, but not to the exclusion of member directed marketing activities. However, it should include additional oversight to mitigate the risks involved. CPA Australia should not invest in activities that centre on an individual unless it is appropriately balanced with other corporate brand building activities.</p> <p>CPA Australia should also strengthen the value proposition of marketing activities to member segments by identifying member segments and assessing marketing activities against these. This will also assist CPA Australia to ensure members better understand marketing activities and investments. CPA Australia should utilise existing member engagement mechanisms to achieve this.</p> <p>CPA Australia should also review the organisation structure of marketing related business units. The future structure should reduce complexity, achieve greater executive level unity and fit within the CPA Australia structure.</p>
<p>Strategy and performance of member services and engagement</p>	
<p>Current state overview</p>	<p>Member services are the specific offerings that CPA Australia delivers to members from its member services portfolio and associated functions. It includes the delivery of education, training, technical support and advocacy services. Member engagement refers to the engagement activities undertaken by Divisions and CPA Australia’s membership function to facilitate connectedness and participation between members and CPA Australia. It includes members’ engagement at events, member-run groups, and the communication channels between members and CPA Australia.</p> <p>Member services are delivered by six teams within the member services portfolio. Volunteers and paid employees are also involved in engagement with, and provision of services to, members. CPA Australia has strong member participation at a local and regional level: members actively participate in more than 200 organised groups.</p> <p>Member engagement is an ongoing challenge for member-based organisations, including CPA Australia. Member engagement occurs in the context of shifts in technology and media, and the expectations that come with this. This provides both complexity and opportunity with regard to how member organisations engage with their membership.</p>

Section	Details
Findings	<p>Members have raised concerns that Divisional Councils have become more constrained in engaging with members, and that the role of Divisional Councils has diminished. Divisional Councils are considered by members as the primary engagement point. Over time, Councils feel their capacity to deliver events and member engagement activities has reduced due to resource constraints and limited freedom to communicate directly with members.</p> <p>The formal and informal mechanisms for members to engage in the direction of CPA Australia could be improved. Feedback from members suggests that currently available communication channels are inadequate for communicating members' issues to the Board, and for involving members in strategy development through Divisional Councils. Members feel that there is scope to improve how they influence CPA Australia's direction, in particular through the Divisional and Representative Councils.</p> <p>Some members have indicated that there is a misalignment between services and membership costs. In particular, that the cost of professional development and training is also perceived as being too high. In light of this feedback, there would be benefit in CPA Australia considering how it communicates the value of membership to members.</p> <p>Members also questioned the rationale for the Annual General Meeting (AGM) being held in Singapore in 2017, and the way remote members were supported to participate despite some level of technology being made available for remote participation. The AGM aimed to demonstrate CPA Australia's commitment to the Asia-Pacific region. It was live streamed using remote technology that was an improvement on previous technologies available to members, but did not allow real-time participation. The lack of real-time participation was a concern for members.</p> <p>Feedback to the Review Panel also indicates that on occasions, interactions between staff and members have not always been constructive and respectful and, at times, have been detrimental. CPA Australia currently does not have a charter that explicitly governs the standards of behaviour of members when dealing with staff and members. It is becoming increasingly common in member organisations for such policies to be adopted.</p>
Preliminary recommendations	<p>CPA Australia should enhance the role of Divisions and Councils to engage with members. This should include some additional resources, remit and access to communication channels. The Review Panel understands that the Board is already considering initiatives to enhance the role of Divisional Councils and any further changes would need to complement these.</p> <p>CPA Australia should utilise engagement mechanisms to improve members' abilities to meaningfully engage in setting CPA Australia's direction, deliberate on issues and opportunities, and provide feedback to the Board and CPA Australia, predominately through Divisional Councils</p> <p>CPA Australia should periodically review the costs to members and how the value of membership is communicated to members.</p> <p>CPA Australia should implement processes and policies to make AGMs reasonably accessible to all of its members. This includes allowing sufficient advance notice of the time and location, and the ability for real time participation for members who cannot attend in person.</p> <p>CPA Australia should also articulate a policy which sets a minimum standard for appropriate professional behaviour in relationship to the organisation.</p>
Strategy and performance of CPA Advice	
Current state overview	<p>CPA Advice is a wholly-owned subsidiary of CPA Australia. It was established with the primary purpose to acquire and operate an Australian Financial Services Licence (AFSL) and an Australian Credit Licence (ACL) so that members may offer quality independent financial advice to consumers on a fee-for-service base with advisers receiving no commissions or asset-based fees.</p>

Section	Details
	<p>CPA Advice was also established in response to the repeal of the accountants' exemption, which 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 AFSL regime. It is intended to provide members impacted by the removal of the accountants' exemption with a licensing solution should they wish to provide SMSF advice and to save them having to apply to obtain their own AFSL.</p> <p>Members have raised concerns about the rationale for the establishment of CPA Advice, its performance – including financial performance – and the impact on CPA Australia's Professional Standards Scheme (PSS) insurance for public practitioners.</p>
Findings	<p>The business case for establishing CPA Advice articulates a strategic rationale and identified a number of key risks including professional indemnity insurance risks. From the business case, it can be concluded there was significant intent from CPA Australia and the CPA Board to provide a service that was in the best interest of CPA Australia, CPA members and the public. On the material available to the Review Panel, there was no evidence to suggest that there were other motives for the establishment of CPA Advice.</p> <p>However, the performance of CPA Advice has suffered from a number of issues that have impacted uptake by members. CPA Advice has found it difficult to recruit authorised representatives, despite an initial high number of expressions of interest. CPA Advice has been challenged in providing a clear value proposition for members. It has also been suggested that the negative press surrounding CPA Australia and the uncertainty around CPA Advice's future has had a significant impact on member uptake.</p> <p>Revenues are behind projections in the business case, resulting in sizable losses. However, through cost reductions CPA Advice has been able to reduce losses to less than those projected in the business case.</p> <p>Concerns were also raised in relation to 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 Advice. This has impacted the approval timeline of CPA Australia's new Professional Standards Scheme (PSS) which was lodged in January 2017. The PSS caps the civil liability or damages of members of professional bodies if a court upholds a claim against them. CPA Australia's current PSS is due to expire in October 2017. However, CPA Australia is establishing a bridging policy for member Professional Indemnity Excess Insurance until a new PSS is put in place.</p> <p>The Professional Standards Council (PSC), which administers the PSS, has advised that there is no impediment to CPA making an application for a PSS. 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.</p>
Preliminary recommendations	<p>CPA Australia conduct a comprehensive post implementation review of CPA Advice. The post implementation review should reconsider the strategy in-light of the low uptake. It should also look at the factors that have contributed to low uptake and whether, and how, financial performance can be improved. The Review Panel notes that the Board of CPA Advice has already implemented pricing changes to make the offer more competitive.</p>

The way forward

Further work will be undertaken between this report and the final report of the Review Panel, which is planned to be released by December 2017. Members will also have the opportunity to provide feedback and submissions on this report which will be considered by the Review Panel in preparing the Final Report.

The Review Panel plans to undertake the following activities between this report and the Final Report:

- receive and review submissions from members through the CPA Australia Review website
- engage further with members and stakeholders
- review and analyse additional internal data and information from CPA Australia
- engage with CPA Australia employees
- update the findings, where required, and preliminary recommendations outlined in this report
- develop final recommendations for existing or new findings where a preliminary recommendation has not currently been provided.

Further information on the timing and processes for the final report will be outlined progressively on the Review website.

2 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.

The Review Panel would like to acknowledge the consultation, engagement and insights offered by the Divisional Presidents Group, which provided a rich source of input to the Review.

We would also like to thank those CPA Australia members, staff and other stakeholders that attended over 25 group stakeholder consultations, provided in excess of 1,770 submissions and accessed the Review website more than 7,300 times. The submissions offered a constructive view and were overwhelmingly conveyed respectfully. The information and insights provided were invaluable in developing this Preliminary Report, and will continue to be used in preparation of the Final Report.

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

We would also like to thank Nous Group, which has provided secretariat services and has contributed significantly to the development of this report.

3 Glossary of key terms

Members	Includes current members of CPA Australia from all categories of membership, including members on Representative and Divisional Councils
Stakeholders	Employees, relevant organisations, education institutions and employers
Review Panel	The Independent Panel constituted for the purposes of this Review
Corporate Plan	The CPA Australia Corporate Plan 2015 – 2019
Submissions	Submissions received for the purposes of this Review from: members through the survey tool; Divisional and Representative Councils through formal written submissions; and members through direct communication to the Review Panel
In-camera	A legal term that means in private.

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. 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 members⁵.

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.
-

CPA Australia is an organisation of significant scale with annual revenues over \$180 million and 530 professional staff⁶

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

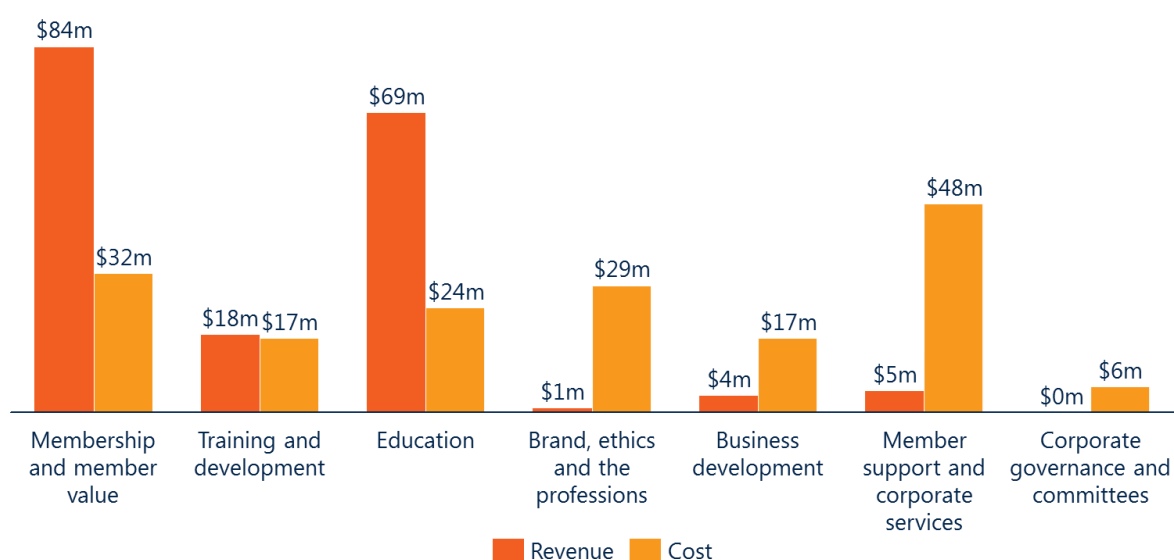
⁵ IFAC

⁶ Includes full-time, part-time and casual staff.

- *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* - managing and developing 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 cost⁷



CPA Australia has a large, diverse and growing membership base

As of December 2016 CPA Australia had reported 160,888 members. These mainly consist of professionals in industry and commerce, public practitioners, and 41,700 student members that are studying for their CPA qualification. The largest age cohort in the membership body is 30-39 year olds, which accounts for 33% of members.

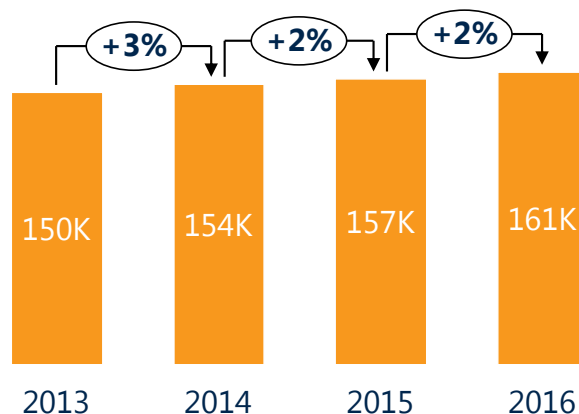
CPA Australia members are based in 118 countries. The sphere of operations covers offices in all Australian states and territories, China (including Hong Kong SAR, Macau and Taiwan), Fiji, Indonesia, Malaysia, New Zealand, Papua New Guinea, Singapore, the United Kingdom and Vietnam.

CPA Australia's membership has grown 2-3% per annum since 2013⁸. Its annual membership numbers are outlined in Figure 2.

⁷ CPA Australia, Annual report (2016) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

⁸ CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

Figure 2: CPA Australia membership, 2013-16⁹



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 (25% of members)¹⁰
2. **CPA members** – aimed at those who hold a degree recognised by CPA Australia in any discipline or who have completed the CPA program (67% 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)

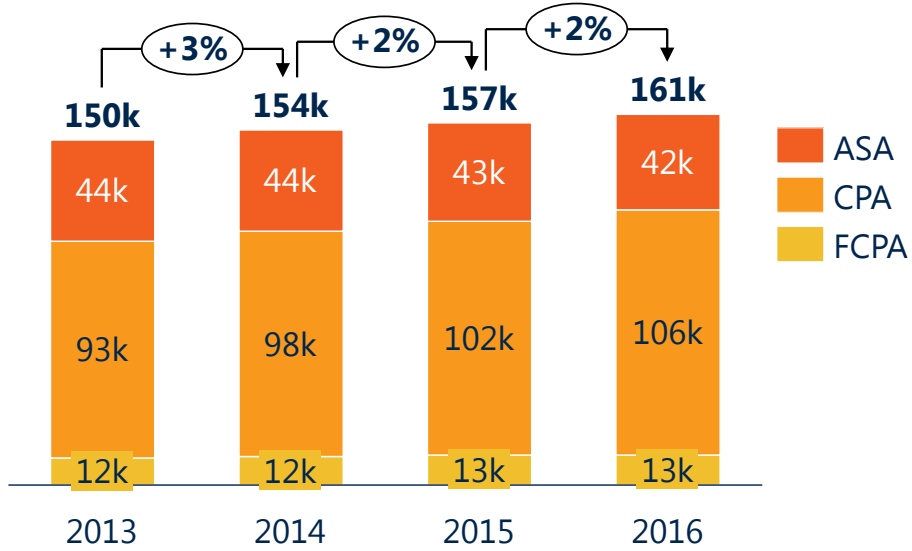
CPA and FCPA members are eligible to vote at meetings of members.¹¹ Figure 3 outlines the proportion of CPA Australia's membership by membership type.

⁹ CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

¹⁰ Data provided by CPA Australia.

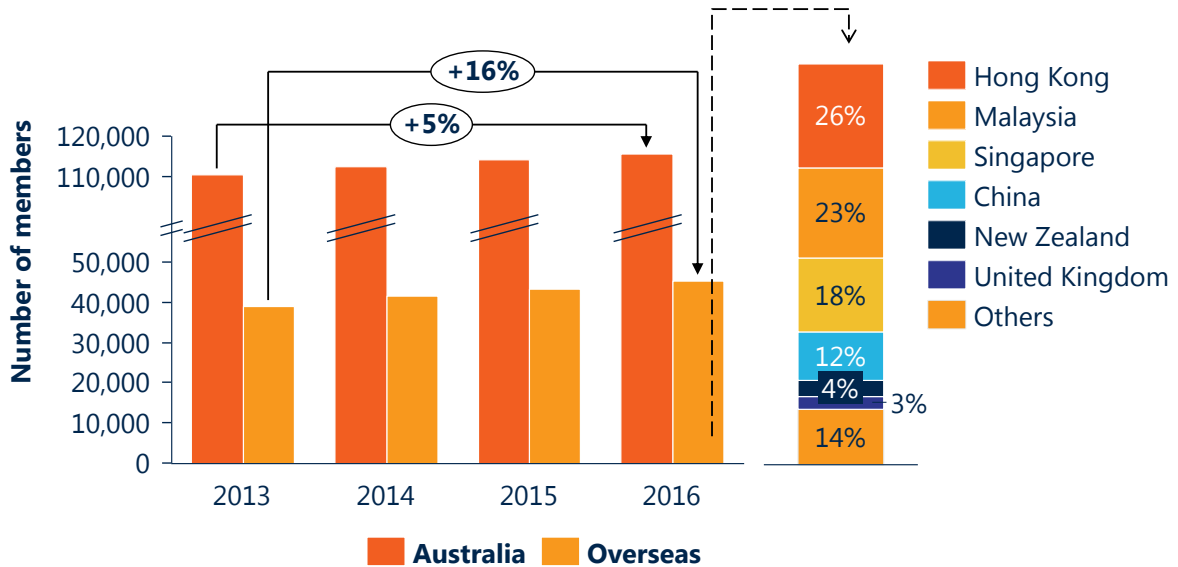
¹¹ Data provided by CPA Australia.

Figure 3: CPA Australia membership by type of member, 2013-16¹²



For the four years to 2016, CPA Australia’s overseas membership numbers grew faster on a percentage basis than the Australian membership (albeit from a lower base).¹³ The majority of CPA Australia’s overseas members are based in Asia, with the top four countries being Hong Kong (26% of overseas members in 2016), Malaysia (23%), Singapore (18%) and China (12%). Figure 4 outlines the percentage growth in CPA Australia’s domestic and international membership and the breakdown of international membership by country for 2016.

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



¹² Data provided by CPA Australia

¹³ 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 to more than 160,000 members are summarised below:

- **Education**¹⁴ - CPA Australia delivers the CPA Program to accredit young professional and students
- **Training**¹⁵ - 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**¹⁶ - CPA Australia provides technical support to its members
- **Advocacy**¹⁷ - 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 this Review 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 has requested a preliminary report be delivered by Friday 15 September 2017. The Review Panel is expected to release a Final Report to members by December 2017 detailing findings and recommendations.

¹⁴ CPA Australia Limited, 'Become a CPA', <<https://www.cpaustralia.com.au/become-a-cpa>>

¹⁵ CPA Australia Limited, 'Training and Events', <<https://www.cpaustralia.com.au/training-and-events>>

¹⁶ CPA Australia Limited, 'CPA Australia 2016 Integrated Report'.

¹⁷ CPA Australia Limited, 'Centres of Excellence', <<https://www.cpaustralia.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.

Table 2 outlines the area within the Terms of Reference covered in the Preliminary Report. Areas within the Terms of Reference not covered in the Preliminary Report will be explored in the Final Report released in December.

Table 2: Terms of Reference covered in the Preliminary Report

Terms of Reference	Section of the report
1. Governance	Chapter 5
a. Election of directors	Section 5.2.2, 5.2.3 and 5.2.4
b. Term limits	Section 5.2.2
c. Independence of the Representative Council	Section 5.2.1
d. Compliance	Section 5.1 and 5.2
2. Remuneration	Chapter 6
e. Disclosures	Section 6.2.4
f. Compliance with laws and accounting standards	Section 6.1
g. Benchmarking processes	Section 6.2
3. Marketing strategy and expenditure	Chapter 7
h. Consistency with Board approved strategy	Section 7.1
i. Appropriateness of expenditure	Section 7.2
4. Strategy and performance of member services and engagement	Chapter 8
5. Strategy and performance of CPA Advice	Chapter 9

4.3 Review methodology

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

- Gain an understanding of the governance framework and organisational arrangements:** the Review Panel reviewed the CPA Australia Constitution, by-laws and key policies, organisational arrangements and other relevant materials that outline the objectives of CPA Australia.
- Engage with members and key stakeholders:** the Review Panel conducted 25 separate group engagement meetings or phone conferences with members and other stakeholders. These meetings included some conducted with the Board of CPA Australia and Divisional Presidents, while others were with individuals or groups of members, staff or other key stakeholders.

Typically, at least two Review Panel members and a member of the Review Secretariat were present at each stakeholder meeting. Where requested, these engagements have remained confidential.

There were over 1,770 submissions recorded through the website survey or direct email. An overview of these submissions is provided in Appendix C. The content of these submissions was:

- analysed by the Review Secretariat, with submissions examined to inform the relevant area of the review
- considered directly by the Review Panel through a subset of responses provided by the secretariat.

Any comments submitted have been de-identified to protect member privacy.

3. **Undertake desktop research:** the Review Panel requested a number of documents and information from CPA Australia in relation to the review that were provided to the Review Panel using a secure document management system, 'Board Vantage'.
4. **Analyse evidence, and develop and draft preliminary recommendations:** the Review Panel developed preliminary recommendations using the knowledge gained from the above-mentioned sources; the Review Panel's experience and expertise; comparisons with member expectations and industry best practices; and the experience and analysis of the Nous Group secretariat.

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
- high standards established by the ASX corporate governance guidelines and 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 aims to provide 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 to be commercial-in-confidence and/or subject to third party contractual arrangements.

4.4 The Preliminary Report's purpose

The Preliminary Report's purpose is to present the Review Panel's findings in relation to matters identified in the Terms of Reference above. For the purposes of the Preliminary Report, findings include:

- summaries of internal and external stakeholder sentiment, expressed through interviews or written submissions
- findings on the basis of CPA Australia's Constitution, By-Laws and Policies
- findings on the basis of written documents provided by CPA Australia
- findings on the basis of publicly-available information from a number of leading, member-based organisations
- general indications as to the direction certain improvements could take

The Preliminary Report does not offer definitive conclusions in relation to any of the matters listed above. Nevertheless, preliminary recommendations have been developed for findings which are indicative of the direction that the Review Panel considers improvements should take. Final recommendations, including option analysis where relevant, will be set out in the Final Report.

The Preliminary Report is structured so as to have separate sections for each of:

- governance
- remuneration
- marketing strategy and expenditure
- strategy and performance of member services and engagement
- strategy and performance of CPA Advice.

Each section has a uniform structure that gives an overview of the current state, before presenting the Review Panel's findings, preliminary recommendations and concluding remarks. 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 reviews CPA Australia's governance, in particular, the role and influence of the Board of Directors and Representative Council as outlined in CPA Australia's Constitution. It outlines the current state overview, findings, preliminary recommendations and next steps for the Review.

5.1 Current state overview

Community expectations as to standards of corporate governance are increasing

Corporate governance describes the framework of rules, relationships, systems and processes within which and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.¹⁸

The past two decades have seen corporate governance, especially community expectations of corporate governance, feature prominently within the Australian business environment. The early catalyst for this was the collapse of HIH Insurance, which precipitated the formulation of the Code of Corporate Governance - considered by many as the benchmark for good corporate governance in Australia. While the Code of Corporate Governance only directly applies to commercial corporations listed on the ASX, its governance principles are used to benchmark best practice elsewhere. Community organisations, sports, schools, universities, professional bodies and governments use or invoke the ASX Code. The Code seeks to promote eight central principles:¹⁹

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

Laws, rules and guidelines, together with market, investor and community expectations, form Australia's corporate governance framework. As such, Australia's corporate governance framework extends beyond compliance and regulatory requirements to include a mix of prescriptive, voluntary and perception elements.

For at least the last decade corporate conduct has been considered by the courts and the regulators in Australia and internationally. The standards of conduct expected from corporations and their directors have increased over the years. It is therefore incumbent on all organisations today to pursue the

¹⁸ Justice Owen in the HIH Royal Commission, *The Failure of HIH Insurance Volume 1: A Corporate Collapse and Its Lessons*, Commonwealth of Australia, April 2003 at page xxxiv.

¹⁹ ASX Corporate Governance Council (2014), *Corporate Governance Principles and Recommendations* (3rd Edition)

adoption of sound standards of corporate governance, and to have close regard to developments in this area.

A previous governance review identified four key imperatives for reform

Prior to examining CPA Australia’s current governance arrangements, it is informative to understand the findings of an earlier significant governance review. In 2006, CPA Australia conducted the most significant governance review in its recent history. That review found that while CPA Australia is an organisation that relies on staff and members for its activities, both groups expressed dissatisfaction at their ability to contribute effectively. In relation to governance, the previous review identified four imperatives for governance reform.²⁰ These imperatives are summarised in the table below.

Table 3: CPA Australia 2006 Governance Review’s findings on the Four Imperatives for Governance Reform

Imperative	2006 Governance Review findings
Clarity	Members desire greater clarity around the governance framework. The governance system is too complex, poorly defined and lacks transparency.
Connections	The governance framework should be connected to members. Effective connections improve clarity and transparency, build trust and confidence, support effective contribution and enable leadership.
Contribution	The partnership between staff and volunteers is only partly healthy. The key piece in the link to members and volunteers, the Divisional Councils, feel disempowered and marginalised.
Leadership	Member feedback centred on a desire for Directors with more diverse experience, for Directors with more commercial governance experience, and for higher profile office-bearers. There was also criticism about confused signals from the top, the quality of decision-making and strategic direction.

The 2006 Governance Review 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.²¹ It was also suggested that CPA Australia’s governance arrangements must also:²²

- enable leadership of the profession and CPA Australia
- reflect the profession and CPA Australia’s core values
- maintain policies and decisions’ legitimacy
- support achievement through staff and membership contribution
- meet 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

²⁰ CPA Australia, ‘Vision and Success Factors’ (Board Paper, 2006).
²¹ CPA Australia Ltd, ‘Governance Review – Consultation Draft’ (2006).
²² CPA Australia Ltd, ‘Governance Review – Consultation Draft’ (2006).

governance review, CPA Australia's governance arrangements will operate, and will be seen to operate at the highest standards where the governance arrangements:²³

- 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.

CPA Australia's Constitution, in partnership with the By-Laws, sets out CPA Australia's governance arrangements

CPA Australia's Constitution is the primary document that sets out CPA Australia's governance arrangements. Following the substantial overhaul after the 2006 review, further amendments have been made. The current Constitution was approved at an AGM held on 28 April 2014. The 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.

The Constitution's operation is supported by a detailed set of By-Laws. The latest version of CPA Australia's By-Laws was approved in July 2016. The Board may make, vary, amend and repeal By-Laws.²⁴

²³ CPA Australia Ltd, 'Governance Review – Consultation Draft' (2006).

²⁴ Constitution of CPA Australia Ltd, Art. 51(d).

Table 4: Function and composition of governance bodies established by CPA Australia’s Constitution

Board	Function	<ul style="list-style-type: none"> • The Board has power to manage the business of CPA Australia.²⁵ It is responsible for a number of decisions, including: <ul style="list-style-type: none"> • setting and approving the organisation’s strategy, direction and financial objectives • approving financial statements • appointing and terminating the CEO • evaluating the CEO’s performance • making and amending By-Laws.
	Composition	<ul style="list-style-type: none"> • The Board consists of a maximum of 12 Directors, up to 10 of which are members and up to 2 of which are neither members nor employees of CPA Australia.²⁶ • Other than Directors appointed under the Constitution to fill a casual vacancy on the Board, Directors appointed by the Representative Council have terms of three calendar years, and may be appointed to serve up to two further terms.²⁷
Representative Council	Function	<ul style="list-style-type: none"> • The Representative Council appoints CPA Australia’s Directors.²⁸ • The Representative Council can provide guidance to the Board on member issues, and can consider any issues concerning CPA Australia’s affairs (on the request of the Board or of more than 50% of the Representative Councillors). However, with respect to these powers, the Representative Council has no authority to bind, instruct, or direct the Board.²⁹
	Composition	<ul style="list-style-type: none"> • The Representative Councillors include one representative from each Divisional Council, an additional representative from each Divisional Council belonging to a Division with more than 20% of CPA Australia members and the Board may appoint representatives from groups, bodies or committees established or recognised by the Board.³⁰ • Representative Councillors are not Directors, unless separately appointed as Directors by the Representative Council.³¹ • Unless appointed to fill a casual vacancy, each Representative Councillor holds office for a term of two years, and may be reappointed for up to two further terms.³²

²⁵ Constitution of CPA Australia Ltd, Art. 51(a).

²⁶ Constitution of CPA Australia Ltd, Art. 44(a).

²⁷ Constitution of CPA Australia Ltd, Art. 44(b).

²⁸ Constitution of CPA Australia Ltd, Art. 61(a).

²⁹ Constitution of CPA Australia Ltd, Art. 61(c).

³⁰ Constitution of CPA Australia Ltd, Art. 62(a). The precise number of Representative Councillors permitted as representatives of groups, bodies or Committees established or recognised by the Board is limited by Art. 62(b).

³¹ Constitution of CPA Australia Ltd, Art. 61(d).

³² Constitution of CPA Australia Ltd, Art. 62(c).

Divisional Council	Function ³³	<ul style="list-style-type: none"> ◦ The Divisional Councils contribute ideas towards the strategy and direction of CPA Australia for the benefit of all its members. ◦ The Divisional Councils develop and implement a Council Engagement Plan in consultation with the General Manager. ◦ The Divisional Councils enhance relationships with key stakeholders. ◦ The Divisional Councils contribute towards the effective representation of all members within the division. ◦ The Divisional Councils provide the forum for professional debate on relevant issues including accounting, finance, law and ethics. ◦ The Divisional Councils promote the skills, qualifications and professionalism of members.
	Composition	<ul style="list-style-type: none"> ◦ The Board determines the precise number of Divisional Councillors to be elected within each Division.³⁴ ◦ Divisional Councillors are elected by members attached to that Division in accordance with the By-Laws.³⁵ ◦ Unless appointed to fill a casual vacancy, each Divisional Councillor holds office for a term of three years, and may be reappointed for a further term.³⁶

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. These bodies, and how they interact with the Board and Representative Council, are depicted in the diagram below. Each committee has a charter describing its role and composition. The intention is for charters to be reviewed regularly to ensure that the role and responsibilities of each committee are consistent with CPA Australia’s strategic and operational objectives.

³³ Divisional Councils’ functions are not set out in CPA Australia’s Constitution. Content relating to Divisional Councils’ functions is taken from CPA Australia, ‘Divisional and Branch Councils’ < <https://www.cpaaustralia.com.au/about-us/our-organisation/councils-and-committees/divisional-and-branch-councils>>

³⁴ Constitution of CPA Australia Ltd, Art. 65(a). A range is prescribed between 8 and 20.

³⁵ Constitution of CPA Australia Ltd, Art. 65(a).

³⁶ Constitution of CPA Australia Ltd, Art. 66(a).

Figure 5: CPA Australia’s Board Committees, Advisory Committees and member Compliance Committee



Many members and Divisional Councils feel governance of CPA Australia has fallen short of their expectations

CPA Australia’s approach to governance has not met the expectations of a 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 transparency of Board conduct and decisions; and the possibility that directors had not been properly appointed or exceeded term limits. A selection of this feedback is captured in the table below.

Table 5: Selected feedback from members on issues related to CPA Australia’s governance

Theme	Selected feedback from members
Appointment of governance body office holders	<p><i>“This would be an opportune time to review CPA Australia’s board composition and appropriate skills mix to take our organisation forward into the future.”</i></p> <p><i>“The role of the candidate search firm in shortlisting candidates, and the final selection by the Nomination and Remuneration Committee before ratification by the Representative Council should be re-examined. We note that there is a significant change on the composition of the NRC to include non-board members. This will enhance credibility in the board nomination process.”</i></p>

Theme

Selected feedback from members

Influence of the Board on other governance bodies

"We are also concerned with the appointment, roles and powers of the Nominations and Remuneration Committee and the Representative Council."

"CPA need to take control of the governance within CPA first as it seems that at the highest level we have a lack of governance."

Transparency of Board conduct and decisions

"There is a strong view that the organization has been influenced too strongly by an individualised CEO strategy and plans with limited engagement and input from the broader executive committee and management members."

"I have lost faith with the Board. Issues around remuneration, lack of transparency and strange business directions (e.g. CPA Advice) make me reconsider my membership."

5.2 Findings

This section outlines the Review's findings with respect to CPA Australia's current governance arrangements.

The findings outlined in this section are:

- CPA Australia's Constitution potentially gives the Board a high level of influence over the Representative Council
- the appointment and reappointment of current Directors has followed the Constitution, but the structure would benefit from further review
- 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 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).

Each is discussed below.

5.2.1 CPA Australia's Constitution potentially gives the Board a high level of influence over the Representative Council

Under CPA Australia's Constitution, there are multiple links between the Board and the Representative Council and Divisional Councils

CPA Australia's Constitution gives CPA Australia's Board influence in the Representative Council and Divisional Council's composition. CPA Australia's primary governance body, the Board, is made up of CPA Australia's Directors.³⁷ Directors are appointed by the Representative Council.³⁸

The Representative Council comprises Representative Councillors. The Councillors include one representative from each Divisional Council, an additional representative from each Divisional Council belonging to a Division with more than 20% of CPA Australia members and the Board may appoint representatives from groups, bodies or committees established or recognised by the Board. The number of Councillors appointed under this provision cannot exceed the number of Councillors appointed by the Divisional Councils.

Under the Constitution, the Board has a number of links to the Representative Council. These links potentially give the Board influence in the Representative Council's composition, and create a connection between the Board and the mechanism to appoint the Board.³⁹ The Board's influence also extends to the Divisional Council's composition.⁴⁰ 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.

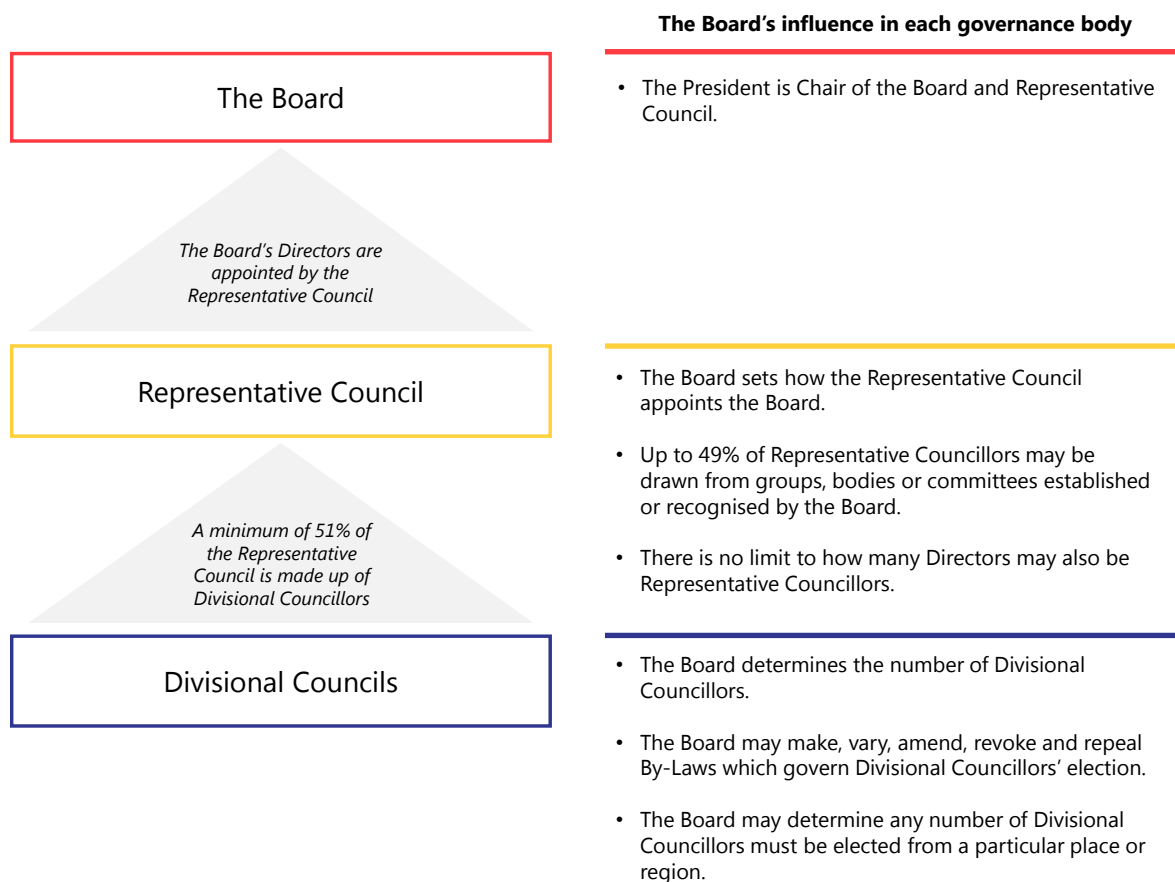
³⁷ Constitution of CPA Australia Ltd, Art. 1.

³⁸ Constitution of CPA Australia Ltd, Art. 44(a).

³⁹ Constitution of CPA Australia Ltd, Art. 58, 61(a), 61(d), 62(a), 62(d), 63(a).

⁴⁰ Constitution of CPA Australia Ltd, Art. 52(d), 65(a), 65(b).

Figure 6: Areas where the Board has influence over the Representative Council and Divisional Council(s)



It is worth stating that CPA Australia's Representative Council has taken a different form from that originally contemplated in the 2006 governance review. In that review, the recommendation was for the creation of a large, diverse Representative Council which effectively captured the membership's diversity and interests. As the geography of the membership changes, the composition of the Representative Council needs to be reviewed to ensure that the membership is appropriately represented on the Council.

Other leading member-based organisations have some connection between the Board and the mechanism to appoint the Board

Other leading member-based organisations have connections between the Board and the mechanism to appoint the Board. In the case of CA ANZ, the President and two Vice Presidents act as the connection between CA ANZ's Board and its equivalent to the Representative Council, the CA ANZ Council. By contrast, AICD's Board appoints National Directors and confers with Divisional Councils on the appointment of Divisional Directors. Accordingly, from these two examples it can be seen that although leading member-based organisations have some connection between the Board and the mechanism to appoint the Board, the type and extent of connection varies.

Preliminary recommendation: 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

The Review Panel observes there is often a connection between the Board and the mechanism to appoint the Board. The Review Panel will explore further the best structure and process to ensure that the Board and Representative Council are meeting the requirements of the organisation.

The Review Panel returns to the analysis of the previous governance review, which recommended the Representative Council needed to be larger, so as to effectively capture the interests and diversity of CPA Australia's membership. The Review Panel is of the view that the Representative Council needs to change to move from the current state. This will likely necessitate constitutional amendment. While the Final Report will include a recommended approach, the Review Panel can flag in this Preliminary Report that it is considering 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.

The Review Panel is of the view that such an approach would reinforce the connection of the Representative Council to CPA Australia's membership, and overcome concerns as to the Board's level of influence on the Representative Council.

5.2.2 The appointment and reappointment of current Directors has followed the Constitution, but the structure would benefit from further review

Appointment and reappointment terms set out in the Constitution would benefit from review

The term of appointment for Directors under the CPA Australia constitution is three years (Art 44 (b)). This period of time allows Directors to absorb their induction, understand the landscape and become effective in their role. The Constitution permits two further terms each of three years (Art 40 (e)). This means that a Director can serve a total of nine consecutive years. (Note that transitional provisions under the Constitution developed following the 2006 review, permitted longer total service, in specific circumstances - see commentary on transitional tenure below).

While a total service of nine years is common in the corporate world, the Review Panel considers that in the circumstances of a large member-based organisation, which has many competent members willing to serve, consideration ought to be given to reducing the total term to 6 years (initial term and one reappointment) with consideration being given to specific extension to 3 terms, only to accommodate a candidate for President who might otherwise be out of runway for a presidential term.

Reducing the potential duration of board service to 6 years would align with the duration of potential total service of both the Representative Council and the Divisional Council. Additional terms, even after breaks from service are not currently permitted under the Constitution (Art 44 (e)). CPA Australia Members have long professional careers and close and committed relationships with the organisation. It may benefit from members being able to serve additional terms on the board, after an appropriate interval, to ensure that there is opportunity for other members to serve, and to enable the prior Director to re-establish connection with the membership while not a board member.

CPA Australia’s Constitution contains transitional provisions which affect the length of Director tenure

Members raised concerns that a number of Directors have exceeded their allowable tenure. Two Directors have been on CPA Australia’s Board since 2006. These concerns relate to the interpretation of certain provisions in CPA Australia’s Constitution, specifically:

- Article 44(e) allows Directors to be appointed for three consecutive terms.⁴¹
- Article 44(h) contains special arrangements relating to the Directors and Board following CPA Australia’s organisational change in 2007.⁴² It applies to the exclusion of Article 44(e).⁴³
- 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.

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.⁴⁴ The total effect of Article 44(h), therefore, is a Director may serve from 1 October 2007 to 30 September 2018.

The changes that led to Article 44(h)’s current state were approved in 2014. The constitutional amendment was circulated to members in the Notice of AGM. It was voted on by members at the AGM, either by individual attendance or the appointment of a proxy. In the 2014 Notice of Annual General Meeting, the rationale provided for this change was to stagger Board departures to ensure that CPA Australia had the benefit of experienced Directors’ knowledge of the business, at a time where there may be a high Director replacement due to the expiry of a number of Directors’ terms.⁴⁵

One current Director has served four terms. CPA Australia has explained to the Review Panel the circumstances in which this came about. The Director was first appointed on 1 October 2007, under the new governance arrangements, for a term of 18 months concluding on 31 March 2009.⁴⁶ The Director was subsequently appointed from 1 April 2009 for a term of two years concluding on 31 March 2011.⁴⁷ This term was extended by six months to 30 September 2011.⁴⁸ The Director was then appointed for two terms under transition provisions.⁴⁹ As stated above, the transition provisions operate to the exclusion of CPA Australia’s three-term limit.

Taking these transitional provisions into consideration and the circumstances explained above, nothing has come to the attention of the Review Panel to suggest that any Directors have exceeded their constitutional term limits. Current Directors’ tenure is shown in Table 6 below. Note, however, that on August 4 2017, the Directors in Table 6 above announced that they would resign by the end of the year.

⁴¹ Constitution of CPA Australia Ltd, Art. 44(e).

⁴² Constitution of CPA Australia Ltd, Art. 44(h).

⁴³ Constitution of CPA Australia Ltd, Art. 44(h).

⁴⁴ Constitution of CPA Australia Ltd, Art. 44(h)(iii).

⁴⁵ CPA Australia Ltd, (28 April 2014), ‘Notice of Annual General Meeting’, p. 6.

⁴⁶ Constitution of CPA Australia Ltd (30 April 2007 Version), Art. 75A(3)(a).

⁴⁷ Constitution of CPA Australia Ltd (30 April 2007 Version), Art. 75A(3)(a).

⁴⁸ Constitution of CPA Australia Ltd (1 July 2009 Version), Art. 44(h)(i)B.

⁴⁹ Constitution of CPA Australia Ltd (1 July 2009 Version), Art. 44(h)(i)B; Constitution of CPA Australia Ltd (28 April 2014 Version), Art. 44(h)(i)B.

Table 7: Tenure of Board of Directors as of 1 July 2017

Director	Date of appointment(s)	Current term expires	Total years served at end of current term (including pre-2007 tenure)	Total years served at end of current term (excluding pre-2007 tenure)
James Dickson	<ul style="list-style-type: none"> • 1 October 2010 • 1 October 2013 • 1 October 2016 	30 September 2019	9	9
Tim Youngberry	<ul style="list-style-type: none"> • 15 June 2017 	30 September 2017	<1	<1
Richard Petty	<ul style="list-style-type: none"> • 1 April 2006* • 1 October 2007 • 1 October 2010 • 1 October 2014 	30 September 2017	11	10
Michele Dolin	<ul style="list-style-type: none"> • 1 October 2014 	30 September 2017	3	3
Sharon Portelli	<ul style="list-style-type: none"> • 1 October 2015 	30 September 2018	3	3
Graeme Wade	<ul style="list-style-type: none"> • 1 June 2006* • 1 October 2007 • 1 April 2009 • 1 October 2011 • 1 October 2015 	30 September 2018	12	11

*Refers to dates of appointment prior to 1 October 2007

Given the complexities associated with reading and applying the transitional provisions in CPA Australia's Constitution, the circumstances surrounding Directors' tenure under transitional arrangements could have been better explained to members. In particular, the effect of Article 44(h)(iii) in discounting time served under partial terms from allowable tenure could have been explained better, and repeated as appropriate for the benefit of members. The Review Panel notes that the 2014 Notice of Annual General Meeting does acknowledge that "the further reappointment term may result in a small number of directors serving up to eleven years" and offers further explanation as to the rationale of this. The Review Panel considers this could have been emphasised in the lead up to the change and subsequent to the change.

The appointment of Director Tim Youngberry accorded with the Constitution.

In 2017, following a number of resignations, Mr Tim Youngberry was appointed to a casual vacancy on the Board. Members have raised concerns over whether this appointment was sound and if not, whether the board has since been operating "iniquorate". This appointment was not made by the Representative Council, but rather by the Board under article 60 (b). This article provides that the Board may act, in emergencies, to appoint directors up to the number of six Directors (a quorum).

The Review Panel is satisfied that Mr Youngberry's appointment was made properly by the Board under article 60(b) of the Constitution, supported by legal advice.

Extension of the presidential term may enhance good governance

The CPA Australia Constitution prescribes that the President ordinarily holds office for one year, with a possible further one year extension being permitted in certain circumstances (Art 67). Single year presidential terms are not unusual in member organisations. However, the Review Panel notes that in

large member organisations with complex geographies and operating in highly regulated environments such as CPA Australia, longer standard terms of office may assist presidents to increase their "in-role" effectiveness. Having a longer term in office may also better enable the President to develop a robust and healthy working relationship with the CEO.

In the modern corporate world there are increasing demands on the skills and expertise of directors.

The Review Panel reviewed evidence of attention being given by CPA Australia to ensuring that the appointed Directors are well equipped to perform their role. Criteria for Director selection are developed and regularly reviewed. Directors are required to self-assess against performance benchmarks and to conduct peer reviews of fellow directors. This is relevant to continuous improvement of Board performance and is considered in reappointment applications by Directors seeking to extend for further terms. In the modern environment, board selection criteria, skills and experience must be kept under constant review to ensure that the organisation is appointing, retaining and recruiting Directors with the right skills and experience to support best practice governance in a changing landscape. New Directors should receive appropriate, detailed and up-to-date induction into the organisation's history, current status and future challenges, and the Board's responsibilities in its particular environment.

Board composition must represent the diverse breadth of the membership.

Currently, the Constitution provides that up to 2 of the 12 directors be neither a member nor an employee of CPA Australia Art 44 (a)(ii). CPA Australia has adhered to this requirement as if it were a directive requiring two non-members, as opposed to that being an upper limit. The Review Panel considers that in member organisations, having non-members within the governance structures brings independence and fresh perspectives to the group dynamic and should be encouraged.

Preliminary recommendation: CPA Australia maintains Directors' three year term but reconsider the appropriate number of further terms

The Review Panel's preliminary recommendation is that the current three year term is appropriate and should remain. However, consideration should be given to the following:

- reducing the three further terms to one additional term
- an exception to accommodate a potential appointment to President where additional runway is required
- extending the circumstances under which a Director may serve more than one year as President

The Review Panel has the following preliminary recommendations in relation to Board skills and composition:

- CPA Australia must continually review its skill and experience matrices and induction materials to ensure relevance and best governance practice
- consideration should be given to amending the Constitution to require "at least", rather than "up to" two persons who are neither a member or an employee of the company to be appointed to the board.

5.2.3 The Representative Council needs to have a more meaningful role in the appointment of Board Directors

The Representative Council votes on candidates shortlisted by the Nomination and Remuneration Committee

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.⁵⁰ Under the current procedure, the Representative Council is not the only body involved in the nomination and appointment process. The Nomination and Remuneration Committee, a Board Committee, has the following responsibilities relevant to Directors' nomination and appointment:⁵¹

- establish processes for the identification of suitable candidates for recommendation for appointment to the Board
- assess and recommend to the Board, the desired competencies and skills required on the Board, with reference to areas such as gender, employment, age and experience
- from time to time, assess the extent to which the required skills are represented on the Board.

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.⁵² 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.⁵³

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. The external executive search firm's contract is subject to CPA Australia's procurement policy. Based on a shortlist developed by the Nomination and Remuneration Committee, the Representative Council is then asked to vote on behalf of members to appoint one or more shortlisted candidates. This process is depicted in the figure below.

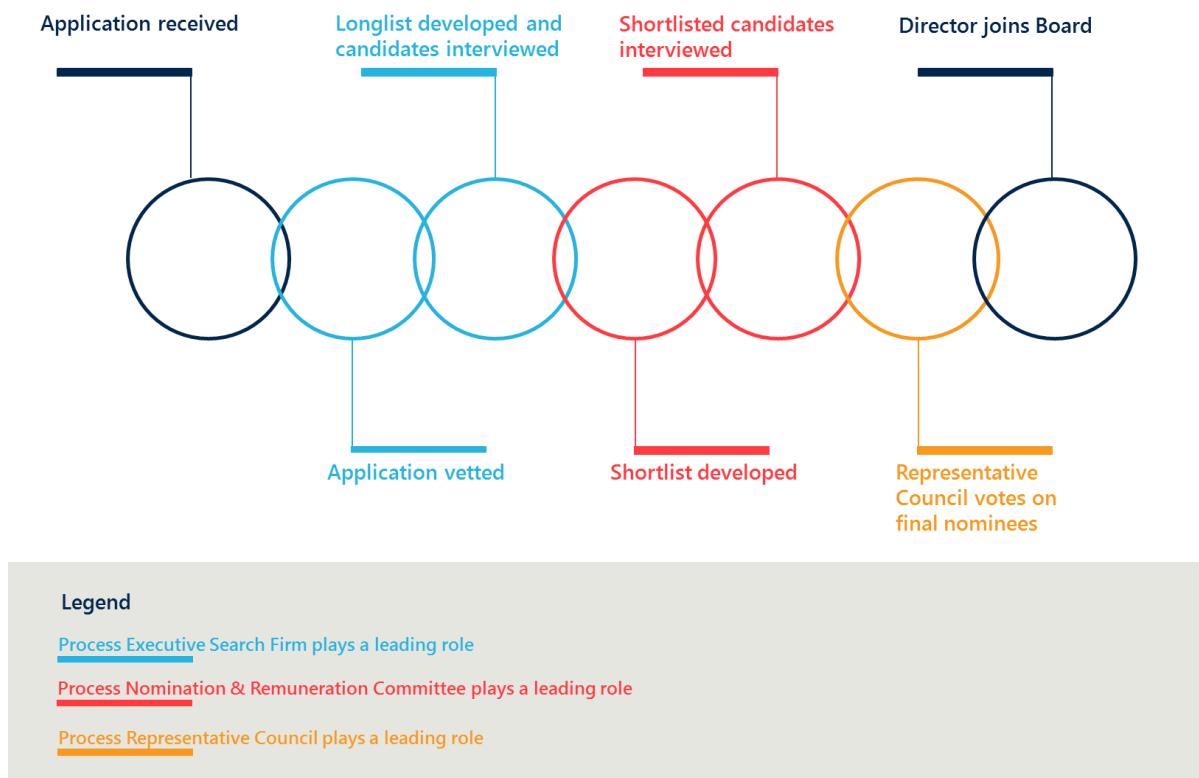
⁵⁰ Constitution of CPA Australia Ltd, Art. 61(a).

⁵¹ CPA Australia Ltd, Nomination & Remuneration Committee Charter.

⁵² CPA Australia Ltd, Nomination & Remuneration Committee Charter.

⁵³ CPA Australia Ltd, 'Announcement from the Board of CPA Australia' (4 August 2017).

Figure 8: Responsibilities in the Director nomination and appointment process



The Representative Council’s oversight over the nomination process is not dissimilar to similar bodies in other leading member-based organisations

The Representative Council’s role in appointing Directors and ensuring due process in voting on candidates shortlisted by the Nominations and Remuneration Committee is similar to equivalent bodies such as CA ANZ and AICD. Of course some member organisations do elect their Boards directly, however direct election is subject to the vagaries of undue influence by active constituent campaigning in small sections of a general membership that is not fully engaged. This can be compounded by adept use of social media by candidates.

The Review Panel considers that on balance the practice of electing Board Directors through an organ of the organisation (the Representative Council) that is itself built on an elected process is preferable to a direct member election.

Preliminary recommendation: Change practices to allow the Representative Council to have timely and meaningful consideration of applicants

The Review Panel observes current practice in other leading member-based organisations is that the mechanism to appoint the Board commonly includes a remit to ensure due process and vote on shortlisted candidates. The Review Panel notes that the nomination and appointment process has been subject to a process of continuous improvement in recent years. Based on an assessment of current practice, the Review Panel considers the following changes to current practice would increase the Representative Council’s ability to provide timely and meaningful consideration of candidates:

- 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. In future, this will require CPA Australia to adopt appropriate technology to allow secure access to required information

- provide the opportunity for representatives from both the Representative Council and Nominations and Remuneration Committee to brief the executive search firm at the start of the application process
- the Representative Council should be chaired by one of its number.

These changes do not change the roles or sequence depicted in the Figure above.

Changes to the Nomination and Remuneration Committee may also be contemplated to reduce the influence of the Board in this process and give the Representative Council a more meaningful role. Following the 4 August 2017 changes, the Nomination and Remuneration Committee comprises the Chair of the Board, one member of the Board (who also acts as the Nomination and Remuneration Committee Chair) and three members external to CPA Australia.⁵⁴ The Review Panel will consider the composition of the Nomination and Remuneration Committee further in the Final Report.

The Board skills matrix methodology should be robust and reflect the context of the regulatory environment and community expectations

CPA Australia is an organisation of significant scale and profile. It is critical, therefore, that the Board is equipped with a range of skills at a sufficient standard to navigate CPA Australia's opportunities and challenges. Equally critical is Directors' continued professional development. The Nomination and Remuneration Committee assesses the extent to which Directors individually and collectively possess and demonstrate relevant skills and experience. This is important work, which should be supported by a robust methodology and periodically evaluated.

CPA Australia's Nomination and Remuneration Committee recommends to the Board the skills and competencies required on the Board. It also assesses the extent to which those skills are represented on the Board through facilitating Directors' self and peer assessments. The Review Panel notes that it is generally good practice to formalise a skills matrix and skill assessment process. Periodic external assessment is useful to complement and support self and peer assessment.

Preliminary recommendation: The Board skills matrix and continuing professional development requirements should be kept under review for continuous improvement
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The Review Panel's preliminary recommendation is to strengthen the skill matrix and assessment methodology. This could include:

- 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

⁵⁴ CPA Australia Ltd, 'Announcement from the Board of CPA Australia' (4 August 2017).

5.2.4 The Board has taken steps to provide greater transparency in this year’s nomination and appointment process

The Review Panel suggested changes to this year’s Director 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 each suggestion on 24 August 2017, which is detailed in the table below.

Table 6: The Panel’s suggestions on the nomination and appointment process, and the Board Chair’s response⁵⁵

	Panel suggestion (14 August 2017)	Board Chair response (24 August 2017)
1	The Board to request the resignation from the Representative Council of the remaining “diversity” members, without replacement	Following recent resignations, there are now only three Board-appointed Representative Councillors. The Board will approach these three Board-appointed Representative Councillors and seek their resignation from the Representative Council, but cannot force them to resign. (Note see comments below, these Councillors have now resigned)
2	CPA Australia invite Divisions to appoint to the Representative Council any new Representative Councillors, so as to ensure each Division is represented.	Each Division is now represented in the Representative Council.
3	The Representative Council’s President to absent himself from Representative Council meetings and the Representative Council to appoint a Chair from its number.	The Board Chair has decided, with the Board’s support, to chair Representative Council meetings but not vote in the appointment of Directors.
4	The Nomination and Remuneration Committee should give clear direction to the executive search consultant on the criteria for Director selection.	The assessment of applicants is based on clear criteria (skill, experience and attributes) with each of the criteria having several sub-sets. The Nomination and Remuneration Committee have access to the proposed criteria prior to undertaking any assessment of applicants.

⁵⁵ The Review Panel’s suggestions were made at a time when it was still reaching an understanding of the processes, and some of the matters raised were already part of the current process – sometimes as a result of CPA Australia’s response to feedback sought from the Council each year after the appointment process concluded.

5	Prior to voting, the Representative Council should be given all relevant material, including the skills matrix, criteria for selection, ratings for all candidates, relevant notes on each candidate and full copies of application materials.	The Nomination and Remuneration Committee has given these matters particular attention. The following actions will be taken: <ul style="list-style-type: none"> • A Representative Council meeting will be held on Monday 11 September. There, Representative Councillors will be given an update on the process. • Meeting materials will be dispatched a week in advance. • A teleconference line will be established for Representative Councillors so they can have discussions in preparation for the meetings.
6	Prior to voting, the Representative Council should have sufficient time to consider relevant materials and discuss shortlisted applicants among themselves, and with the Nomination and Remuneration Committee and the executive search consultant.	<ul style="list-style-type: none"> • The Representative Council will receive details of how applicants were measured against skill, experience and attribute criteria. • The Board will appoint an independent observer from Divisional Council Presidents to observe the entire nomination and shortlisting process. This independent observer will report to the Representative Council on the process.
7	The nomination and appointment process is to be transparently communicated to CPA Australia's membership.	The Representative Council agreed a communications strategy to members and other stakeholders. This is being prepared by management for the Representative Council's use.

Following the Board Chair's response on 24 August 2017, the Representative Council's composition has changed. At the time of writing, the Representative Council comprises 12 members and the CPA Australia President. All Board-appointed members have stepped down from the Representative Council. CPA Australia's President and Chair of the Representative Council will not vote in this year's appointment process.⁵⁶

Preliminary recommendation: There should be a Review Implementation Committee

The current Board has made positive steps in implementing suggestions in the Review Panel's e-mail. To continue this momentum across the Review's Terms of Reference, the Review Panel recommends that a Review Implementation Committee be established. This suggestion was also made by a number of submissions, including submissions from senior and long serving CPA Australia members.

While the precise composition of a review implementation committee is a matter for the Board, the Review Panel has in mind a structure that has a mixture of Board members, well-respected members with Board and organisational transformation experience and CPA Australia staff.

5.2.5 The Board was slow to respond publicly to issues that detracted from CPA Australia's standing

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 2016.⁵⁷ There was extensive coverage on the AGM's location, executive remuneration and the views of disgruntled CPA members in March and April 2017, which

⁵⁶ CPA Australia, 'Director Election Update' (7 September), <www.cpaaustralia.com.au/about-us/our-organisation/board-appointments/director-election-update>

⁵⁷ *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>>

continued into May and June 2017.⁵⁸ Coverage intensified with commentary around CPA Advice, executive remuneration and board resignations in June 2017. In particular, a series of ‘exclusive’ pieces in one particular publication on June 1, 5, 13, 14 and 16 put CPA Australia firmly in the spotlight.⁵⁹

It is the Review Panel’s opinion 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.

Preliminary recommendation: CPA Australia should review its approach to issues management

CPA Australia’s response to a sustained press campaign across multiple issues would have benefitted from best practice issue management. Reputation is a key strategic consideration, not just an operational matter.⁶⁰ It is the Review Panel’s preliminary recommendation that CPA Australia should review its approach to issues management to have the appropriate pre-issue, issue and post-issue communication and management protocols in place.

5.2.6 The Board should give greater emphasis to transparency in its decision-making, in recognition of CPA Australia’s status as a member-based organisation

A recurring theme across a number of submissions and consultations is the 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 used appropriately, in members’ best interests. Accordingly, CPA Australia Board decisions need to be communicated to CPA members with a greater level of transparency.

This Preliminary Report addresses transparency in three places: remuneration in chapter 6, marketing strategy in chapter 7 and the decision to hold the 2017 AGM in Singapore in chapter 8.

A further issue of transparency that has been raised is the provision of a list of CPA’s members to be provided to members. It is understood that a member applied for a copy of CPA Australia’s register of members under section 173 of the *Corporations Act 2001* (Cth). It was reported the purpose of this was to contact members to discuss issues with their membership.⁶¹ A company’s register of members must contain each member’s name and address, as well as the date of which the member is entered onto the register.⁶²

CPA Australia provided the member with the registry in accordance with its obligations under section 173(3) of the Act. The Review Panel understands that CPA Australia’s response included the mandatory information above, but did not include members’ e-mail addresses due to privacy considerations. The

⁵⁸ See, for instance, *Australian Financial Review*, ‘COA finally announces its AGM ... in Singapore’ (March 16 2017); ‘CPA Australia rebels get membership list, board remuneration coming’ (27 April 2017)

⁵⁹ *Australian Financial Review*, ‘CPA chair steps down in spirit of renewal’ (1 June 2017); ‘Malley’s CPA venture loses \$5.7 million’ (5 June 2017); ‘CPA in crisis as fourth director quits’ (June 13 2017); ‘World’s most ambitious accountant’ (June 14 2017); ‘Alex Malley must now stand aside’ (June 16 2017).

⁶⁰ Australian Institute of Company Directors (2017), ‘Australia’s NFP Sector, Building Long-Term Strength: NFP Governance and Performance Study’, p 25.

⁶¹ Katarina Taurian, *Accountants Daily*, ‘Big Win for CPA Rebel members Ahead of AGM’ (27 April 2017), <

<https://www.accountantsdaily.com.au/professional-development/10148-big-win-for-cpa-rebel-members-ahead-of-agm>>

⁶² *Corporations Act 2001* (Cth), s 169(1).

Review Panel was advised that CPA Australia is of the opinion that registry's disclosure was in accordance with relevant requirements. The Review Panel notes this and related issues of this nature have been considered by a Senate Committee inquiry.⁶³ The Committee did not support changes to existing arrangements due to a range of considerations related to cost, privacy and security.

5.2.7 It would be good practice for CPA Australia's Board to have time to explore issues or concerns without management present (in-camera)

CPA Australia's Constitution allows the CEO to attend Board meetings, but the Board also need time without management to deliberate

CPA Australia's Constitution entitles the CEO to attend Board meetings.⁶⁴ The CEO may attend Board meetings, but does not have a right to vote. The Review Panel understands that CPA Australia's former CEO frequently attended Board meetings, often for the entirety of the Board meeting.

The Board, however, require time at meetings to deliberate without the presence of the CEO or other KMP. This is so the Board can independently discuss CPA Australia's performance and strategy. 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.⁶⁵

Preliminary recommendation: There should be allotted time at meetings of Directors with no management present

The Review Panel's preliminary recommendation is that the Constitution be changed to permit but not entitled the CEO to attend meetings, and the Board Charter should reflect the need for the Board to be able to consider issues without the presence of the CEO or KMP.

5.3 Concluding remarks

The Review Panel has explored areas of governance practice that can be improved and will continue to explore these and other related issues in the Final Report.

This Preliminary Report has made the following preliminary recommendations in relation to CPA Australia's governance:

- The Representative Council's composition should be reviewed to ensure it is meeting the requirements of independence from the Board and reflecting diversity of membership
- CPA Australia maintains Directors' three year term but reconsiders the appropriate number of further terms
- Changes to practice to allow the Representative Council to have timely and meaningful consideration of applicants
- The Board skills matrix and continuing professional development requirements should be kept under review for continuous improvement

⁶³ On 22 June 2017, the Senate referred the Corporations Amendment (Modernisation of Members Registration) Bill 2017 to the Senate Economics Legislation Committee for inquiry and report by 11 September 2017.

⁶⁴ Constitution of CPA Australia Ltd, Art. 48(d).

⁶⁵ Australian Institute of Company Directors (2016), Director Tools: Meeting Effectiveness – Board Meeting Agenda.

- 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.

These preliminary recommendations will be explored further and finalised in the Final Report.

6 Remuneration

This chapter reviews the remuneration of the former CEO and the Directors⁶⁶ of CPA Australia, CPA Advice and foreign subsidiaries. It outlines the current remuneration, findings, preliminary recommendations and next steps for the Review.

6.1 Current state overview

Concerns from many CPA Australia members and stakeholders have focused on the high levels of remuneration, including the former CEO payout, and the lack of public disclosure around processes involved in setting them. CPA Australia has traditionally disclosed KMP remuneration as a lump sum in the financial reports, but a member-requested disclosure provides a more complete picture of executive salaries.

In accordance with the request from members under section 202B of the Corporations Act 2001 (Cth), CPA Australia provided members with an audited schedule of remuneration for the year ended 31 December 2016. CPA Australia sought external advice on the issuing of the 202B disclosure due to the unusual nature of the request. There were two 202B disclosures: the initial disclosure which excluded offshore subsidiaries, and a second disclosure that included only subsidiaries.

On separation with the former CEO in 2017, CPA Australia paid a contractual employment benefit of \$4.9m⁶⁷.

The 202B disclosures issued in July 2016, showed that the CPA Australia, CPA Advice and subsidiaries' Directors and the former CEO were paid \$6.77m for services in 2016⁶⁸. For consolidated financial statement reporting purposes, Directors of foreign subsidiaries that are not considered KMP of CPA Australia Limited Group are excluded, leaving a disclosed KMP remuneration of \$5.5m

Table 7 outlines the amount paid to senior executives and Board Directors across CPA Australia and CPA Advice Table 8 shows the amounts for Directors of foreign subsidiaries. These figures are inclusive of all bonuses and additional payments.

Table 7: KMP and Directors CPA Australia and CPA Advice

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

⁶⁶ Using the definition of company Director per Corporations Act 2001 – Section 9 <http://www.austlii.edu.au/cgi-bin/viewdoc/au/legis/cth/consol_act/ca2001172/s9.html#director>

⁶⁷ Statement from the President and Chairman of CPA Australia, Jim Dickson, (23 June 2017)

⁶⁸ CPA Australia, 'Schedule 202B prepared for members for the year ended 31 December 2016'.

Position	2016 total remuneration
COO – Member services / Director CPA Australia (Malaysia) / Director CPA Australia (Shanghai)	\$0.9m (includes \$0.185m CPA Advice)

Table 8: Foreign subsidiary Directors not considered CPA Australia KMP

Position	2016 total remuneration
r	\$0.17m
EGM Education / Director CPA Australia (Malaysia)	\$0.4m
County 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 regimes as listed companies. While listed companies are “expected to disclose full remuneration, including option values”⁶⁹ and are subject to the “two-strike rule”⁷⁰ that places power in shareholder hands, CPA Australia is not required to adhere to these rules. This means they do not have to prepare a detailed remuneration report or disclose remuneration of individual directors or executives.

CPA Australia prepares general purpose financial statements. Accounting Standard AASB124 *Related Party Disclosures* section 17 states that “an entity shall disclose key management personnel compensation in total and for each of the following categories”⁷¹:

1. short term employee benefits
2. post-employment benefits
3. other – long term benefits
4. termination benefits
5. share-based payment.

Member-based organisations are not required to produce a detailed remuneration report. As such, the most common methods for member-based organisations’ remuneration reporting to comply with AASB124 are one of:

- a total figure for the executive team (applied by CPA Australia)
- banded remuneration that shows the number of individuals in a salary bracket.

Pressure was placed on CPA Australia by a group of members to disclose all salaries in detail, rather than the aggregated approach taken in the 2016 financial statements. This was compounded when CA ANZ

⁶⁹ ASIC, *Valuing options for directors and executives* (30 June 2003) < <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2003-releases/03-202-valuing-options-for-directors-and-executives/>>.

⁷⁰ *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* sch 1 item 1, amending Corporations Act 2001 (Cth).

⁷¹ Australian Accounting Standards Board, *AASB124 Related Party Disclosures*, (2015), < http://www.aasb.gov.au/admin/file/content105/c9/AASB124_07-15.pdf>

revealed their CEO salary⁷², followed by another member-based organisation, The Tax Institute. The Australian Institute of Company Directors have since disclosed their incoming CEO's salary⁷³.

6.2 Findings

This section outlines the Review Panel's findings with respect to remuneration and the basis for these findings. The Review Panel finds that:

- the 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
- most CPA Australia senior executives were paid more than comparable positions at other member-based organisations
- the traditional disclosure of key management and Directors' remuneration was not transparent.

Each is discussed below.

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

The current Board of CPA Australia and CPA Australia Advice for 2016, their respective positions, and remuneration, are outlined in Table 9 and Table 10. All remuneration details are taken from the Schedule 202B document released by CPA Australia on 30 June 2017. The Review Panel note that there are differences in remuneration for Directors based on non-cash benefits that have to be disclosed in accordance with the Schedule. However, the salary plus post-employment benefit is the same unless the Director has elected to have a different amount of superannuation paid on their behalf or is not a resident of Australia for tax purposes.

⁷² Edmund Tadros, 'Chartered Accountants ANZ reveals CEO's 850,000 salary' in *Australian Financial Review* (May 16 2017) <<http://www.afr.com/business/accounting/chartered-accountants-anz-reveals-ceos-850000-salary-20170515-gw4yvr>>.

⁷³ Edmund Tadros, 'AICD appoints Angus Armour as CEO, reveals he could earn up to \$735,000' in *Australian Financial Review* (August 3 2017) <<http://www.afr.com/business/accounting/aicd-appoints-angus-armour-as-ceo-reveals-he-could-earn-up-to-735000-20170803-gxon4s>>

Table 9: Remuneration of CPA Australia and Advice Board of Directors as per Schedule 202B

Directors and 2016 position	2016 CPA Australia salary and fees(\$)	2016 CPA Australia other employee benefits(\$)	2016 CPA Australia post-employment benefits(\$)	2016 CPA Advice salary and fees(\$)	2016 CPA Advice post-employment benefits(\$)	Total 2016 payment (\$)
J. Dickson – Deputy President	118,713	3,639	15,225	-	-	133,630
M. Dolin	90,049	-	8,555	67,537	6,073	168,604
R. Petty	98,604	8,158	-	70,000	-	176,762
S. Portelli	72,050	5,410	26,555	-	-	104,015
G. Wade - Chair and President of Board (ceased effective 30 September 2016), CPA Advice Chair	238,452	-	20,183	91,324	8,676	358,635
T. Youngberry (not a Director in 2016)	-	-	-	-	-	-

Past Board Directors, who served in 2016 but are no longer present on the Board, are included in Table 10.

Table 10: Remuneration of 2016 Board of Directors that are no longer serving Directors

Director and 2016 position	2016 CPA Australia salary and fees(\$)	2016 CPA Australia other employee benefits(\$)	2016 CPA Australia post-employment benefits(\$)	2016 CPA Advice salary and fees(\$)	2016 CPA Advice post-employment benefits(\$)	Total 2016 payment (\$)
T. Carlin - President and Chairman of the Board (effective 1 October 2016)	160,263	8,678	15,225	63,972	6,073	254,166
D. Ong	106,451	5,014	-	-	-	111,465
R. Alston	90,049	-	8,555	-	-	98,604
M. Hourigan (effective 1 October 2016)	22,512	-	2,139	-	-	24,561
K. Ryan	90,049	-	8,555	-	-	98,604
D. Spong	90,049	-	8,555	-	-	98,604
J. Lang (effective 1 October 2016)	22,512	-	2,139	-	-	24,561
P. Dowling (ceased 30 September 2016)	67,537	-	6,416	-	-	73,953
T. Ebbeck (ceased 30 September 2016)	67,537	-	6,416	-	-	73,953

Suzanne Haddan’s salary was also detailed in Schedule 202B, as an independent director of CPA Advice, with a total remuneration of \$70,000 in 2016. Through discussion with CPA Australia management, the Review Panel notes that Tyrone Carlin and Jim Dickson elected to take lower salaries in 2017 than those paid in 2016.

Article 45 of the CPA Australia Constitution provides some guidelines as to the maximum remuneration that should apply to Directors.⁷⁴ 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 2016⁷⁵
- 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.⁷⁶ 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. While the Constitution does not explicitly state as such, the Directors on both the CPA Advice and CPA Australia Boards do not include the CPA Advice remuneration in the cap.

Some members have questioned why the CPA Australia directors were provided additional remuneration if they sat on the CPA Advice Board. The Review Panel notes it is not unusual for Directors to be paid additional fees for sitting on Boards of subsidiaries. However, it is unusual for executives to receive additional remuneration unless they are office-holders.

CPA Advice Board appointment and remuneration did not follow 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".⁷⁷ The CPA Australia Board, excluding those Directors who were to sit on the CPA Advice Board, then approved the appointment of five existing directors and remuneration of:

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

Some members raised queries regarding the appointment of directors, especially the lack of clarity around the candidates for selection.

The remuneration process

The Board remuneration is recommended annually by the Nomination and Remuneration Committee. The Committee provides the Board with a paper that outlines all recommended remuneration. The Board has previously noted that there is an inherent conflict in the Directors on the Committee setting their own remuneration, but that "there was a carve out under the replaceable rules of the Corporations Act for such issues"⁷⁸.

"[We] want more of a say in the setting of Director salaries, like Public companies are doing under the three-strike rule"

⁷⁴ CPA Australia, *Constitution* (28 April 2014) <<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/about/cpa-australia-constitution-2014.pdf?la=en>>.

⁷⁵ Australian National Audit Office (ANAO) (September 14 2016) <<https://www.anao.gov.au/work/annual-report/auditor-general-annual-report-2015-16>>.

⁷⁶ CPA Australia Board, meeting minutes (2013).

⁷⁷ CPA Australia Board, meeting minutes (2015).

⁷⁸ CPA Australia Board, meeting minutes (2013).

The increase in Director remuneration was 3% in 2014, 5% in 2015 and 2.5% in 2016. The President and Deputy President's remuneration remained unchanged for the last three years.

Director remuneration benchmarking

The previous Chair of the Nomination and Remuneration Committee requested that the current CFO source an external provider to benchmark non-executive Director remuneration. This was completed in 2016 and recommended:

- Director remuneration was within a reasonable range
- the role of Deputy President rarely exists and the remuneration is dependent on the additional workload above the Director role
- President remuneration is above the recommended multiple of non-executive Director remuneration and should be frozen at current levels or reduced.

In order to assess the remuneration of the Board of CPA Australia and CPA Advice the Review Panel has benchmarked all individual Director remuneration paid in 2016 to a range of organisations that publicly disclose Director remuneration:

- CA ANZ - represents over 100,000 members in Australia, New Zealand and overseas and is the major competitor to CPA Australia within Australia⁷⁹
- The Institute of Chartered Accountants in England and Wales (ICAEW) – this UK professional accounting body has very similar member numbers and annual revenue to CPA Australia: over 147,000 members with over 15,000 of these members who live and work outside the UK.⁸⁰
- Australian Super (AusSuper) – a member only superfund that does not pay profits or dividends to shareholders, with over \$100 billion in assets but revenue for operations (excluding investments) of a comparable size to CPA Australia⁸¹
- Teachers' Mutual Bank (TMB) – one of Australia's largest member-based mutual banks, with over 186,000 members and revenue that is comparable to CPA Australia's⁸²
- SRG Limited (SRG) – ASX-listed public company with \$178m in annual revenue (FY16) and consolidated subsidiaries that are overseen by the Board of Directors
- Australian Institute of Company Directors (AICD) provided benchmark figures regarding the range of salaries paid to Directors of not-for-profit organisations with between \$100m and \$500m per year.

The comparison between all Directors that received remuneration for CPA Australia and CPA Advice and the above organisations is provided in Figure 9.

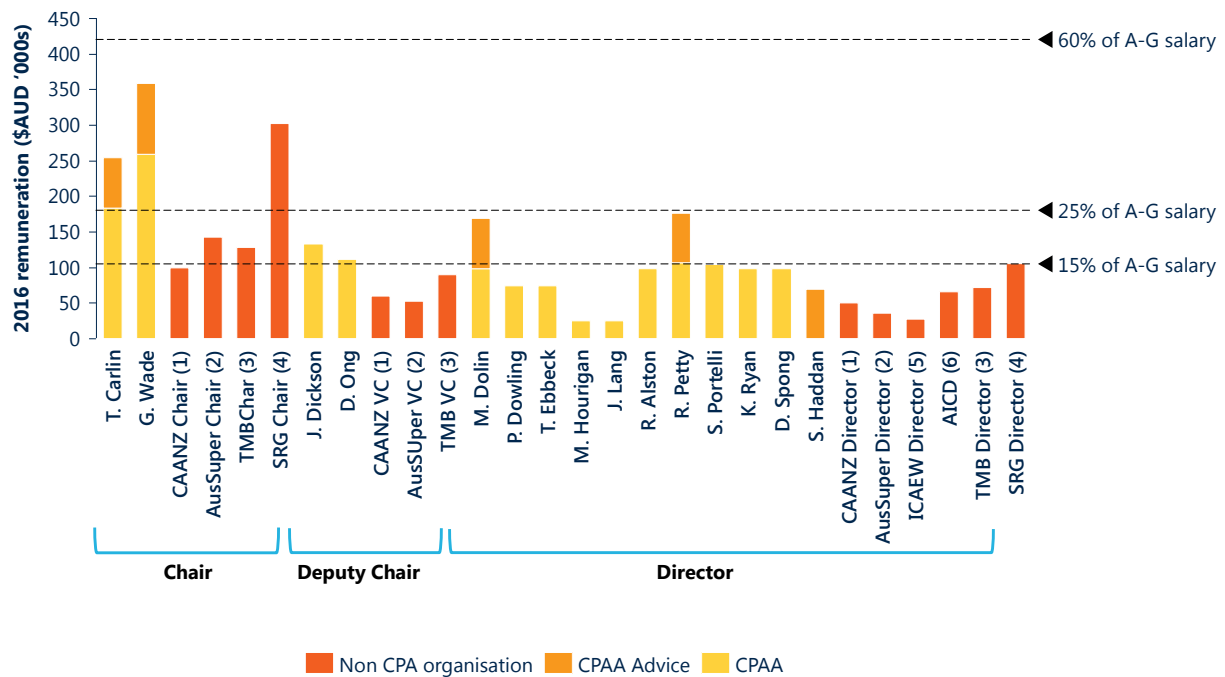
⁷⁹ CAANZ, <<https://www.charteredaccountantsanz.com/>>.

⁸⁰ ICAEW, *Who we are* <<http://www.icaew.com/en/about-icaew/who-we-are?>>.

⁸¹ Australian Super, *About us* <<https://www.australiansuper.com/about-us.aspx>>.

⁸² Teachers Mutual Bank, *About us* <<https://www.tmbank.com.au/about>>.

Figure 9: Board remuneration (including non-cash) and benchmarks⁸³



The findings from the benchmarking of CPA Australia Directors, particularly those that also sit on the Board of CPA Advice, is that they receive higher remuneration than other comparative member-based organisations. The individual Director remuneration package is comparable to that paid by SRG, an ASX-listed public company.

The Directors of a publicly-listed company such as SRG would be expected to face greater shareholder scrutiny, compliance obligations and risks arising from its operations.

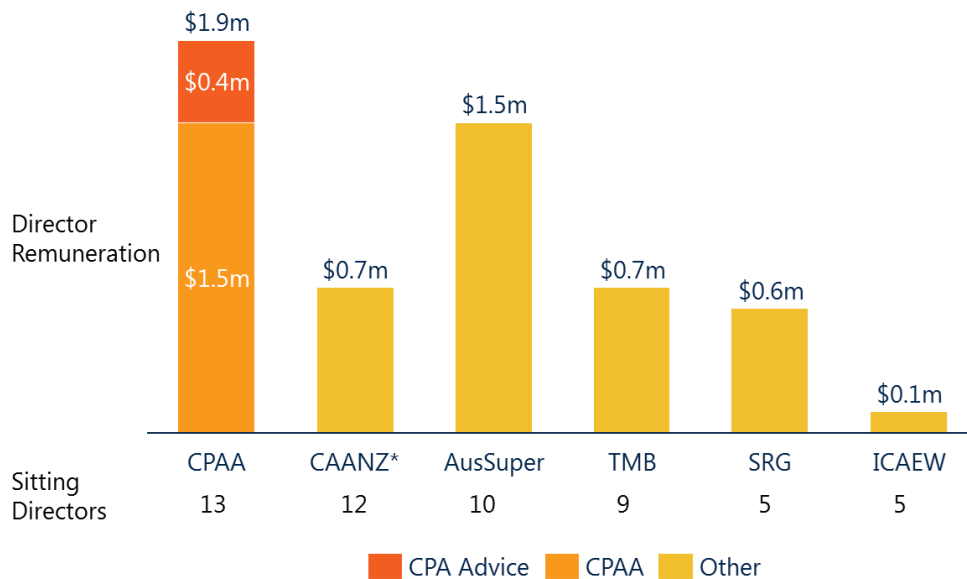
Total Board remuneration

CPA Australia Directors do not receive additional remuneration for sitting on additional bodies such as the Audit and Risk Committee and Nomination and Remuneration Committee. Many other organisations do provide additional payments to Directors that perform extra duties. To address this, a comparison has been done across non-executive key management personnel remuneration as a whole (Figure 10).

⁸³ Sources and notes:

- (1) CAANZ, Annual reports <<https://www.charteredaccountantsanz.com/about-us/governance/annual-report>>. Note that this is presented for 2017 and is unaudited.
- (2) Australian Super, Annual Report (2016) <<https://www.australiansuper.com/~media/Files/AnnualReport/2016AnnualReport.ashx>>
- (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.

Figure 10: Total Board remuneration (2016)



Note: CAANZ figures are presented for 2017 and are yet to be audited

CPA Australia’s Board remuneration is on par with Australian Super, an organisation with over \$100 billion in managed assets.⁸⁴ Both are member-based organisations. The remuneration for CPA Australia’s Board, excluding CPA Advice, is approximately twice that of Teacher’s Mutual Bank and SRG, both of which have similar annual revenues, and manage subsidiaries or significant business units internally. TMB and SRG have fewer Directors than CPA Australia did in 2016, with CPA Australia employing 12 Board members (and one additional CPA Advice independent Director), TMB having nine and SRG four non-executive Directors.

Preliminary recommendations: The Review Panel recommends a number of changes in Board remuneration to align with member expectations and peer organisations

The Review Panel has identified the following preliminary recommendations in relation to Board remuneration, to be confirmed in the Final Report:

- Board Directors should continue to be remunerated. While there are no doubt many highly skilled and knowledgeable CPAs who would sit on the Board as volunteers, providing Directors with remuneration improves the engagement and provides access to a broader range of skills and experience⁸⁵
- Board remuneration should no longer be benchmarked to the A-G’s salary, as this is not a relevant comparison. Any reference to the A-G should be removed from the Constitution
- Benchmarking by a third-party organisation should continue to be undertaken annually and benchmarked organisation should include member-based organisations. The risks, pressures and compliance requirements of listed organisations are different to those of a member-based organisation, and remuneration should reflect this

⁸⁴ Australian Super, *Annual Report 2015-16* (September 2016) <<https://www.australiansuper.com/~media/Files/AnnualReport/2016AnnualReport.ashx>>.

⁸⁵ Australian Institute of Company Directors, *Directors’ fees – Board composition (2016)*, <https://aicd.companydirectors.com.au/~media/cd2/resources/director-resources/director-tools/pdf/05446-1-13-mem-director-t-bc-director_fee_a4_web.ashx>

- Disclosure of Director's remuneration should be made on an individual basis to demonstrate best-practice transparency to members. While not required to prepare an audited remuneration report, increasing the detail to explicitly provide executive and Board remuneration would be considered best-practice.

6.2.2 The former CEO's salary and payout were well above benchmarks

The salary and separation payment received by the former CEO of CPA Australia and CPA Advice has drawn substantial public criticism from many members. The former CEO became President of the CPA Australia Board in 2007 and stepped down within a year when he became the CEO in 2009.

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.

The CPA Australia CEO is required to:

- ensure the vision and strategic goals of CPA Australia are achieved
- 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.⁸⁶

The former CEO was remunerated based on these goals, with aligned KPIs set annually. Each year the Board assessed the former CEO's performance against these areas. Feedback on the former CEO's performance focused on the ambassadorial role of the CEO in media and business.⁸⁷ Less detail was provided on member engagement. This is based on the quantity of feedback regarding media interviews, discussion with government and policy consultation activity. The member engagement KPIs are focused on retention and higher-level engagement strategies, rather than ensuring members are actively engaged with the organisation.

The CEO's remuneration is recommended annually by the Nomination and Remuneration Committee to the Board. This process is to involve benchmarking, by a range of criteria, against a range of private organisations via an external third party. A third party external review commissioned in 2013 provided a demonstration of this process (see CEO remuneration benchmarking below). The 2013 review recommends that the CPA Australia CEO role is one that:

- requires an experienced professional with practical/technical knowledge of the profession
- demonstrates Australian and overseas commercial knowledge
- is knowledgeable in marketing, sales, finance, management and customer service
- is able to manage a substantial and geographically diverse business with significant international operations

⁸⁶ CPA Australia, *Defining the role of the CEO* (2009).

⁸⁷ CPA Australia, *Alex Malley Annual Review (2012-2016)*

- requires strategic problem solving skills.

The level to which the CEO needs to be an international and market leading figure is disputed by many of the submissions. It was the view of many respondents that they do not feel like they had visibility over the specifications and KPIs of the CEO role.

"I was taken aback at the press speculation about the former CEO's remuneration. The justification given by the former CEO was that CPA was a large organisation and his remuneration should be aligned with CEOs of other large organisations. I found this spurious."

There is little doubt that the former CEO contributed to the standing of CPA Australia over many years, lifting its profile and growing its membership. The CPA Australia Board and some members stated that the former CEO was the internationally recognised leader the organisation required. These parties see the former CEO as valuable for brand recognition, particularly within the overseas cohort and key driver for the international strategy.

Former CEO contractual employment payment

Following the former CEO's departure on 23 June 2017, he received a payment that included:

- residual annual and long service leave entitlements
- a separation payment.

The separation payment was equivalent to three year's salary, a term of notice above both market and member expectations. Most CEO contractual employment agreements are one year or less, particularly following the 2009 changes to the Corporations Act (Section 200B(1)) that required shareholder approval for any termination payment that exceeds twelve months' salary.⁸⁸ This requirement does not apply to member-based organisations.

The member responses were, without exception, vocal in condemning the scale of this payment. While it complied with the letter of the law, the Review Panel considers it excessive for a member-based organisation. The Review Panel understands that the rationale for the changes to the separation payment was part of a succession planning strategy. The Review Panel was informed that if CPA Australia had refused to pay out the full amount of the separation payment, the organisation would have been in breach of contract. The Board did not disclose the terms of this contractual agreement to the members, and there is minimal documentation of the decision-making process or rationale.

CEO remuneration benchmarking

The former CEO's position changed in 2015 with the incorporation of CPA 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 Advice. This included an additional salary to be paid, equal to \$250,000 per annum as a "reflection of additional duties"⁸⁹.

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

- an annual salary as CEO of CPA Australia
- an annual salary as CEO of CPA Advice
- annual bonus of up to 30% of base salary
- long term incentive (LTI) to be payable after a period of five years.

⁸⁸ Productivity Commission, Australian Government, *Executive Remuneration in Australia: Productivity Commission Inquiry Report* (19 December 2009) <<http://www.pc.gov.au/inquiries/completed/executive-remuneration/report/executive-remuneration-report.pdf>>.

⁸⁹ CPA Australia Board, meeting minutes (Aug 2015).

The Review Panel notes that the 30% annual bonus or LTI were not paid in 2017.

In addition to the above remuneration, the former CEO was provided \$37,000 in accommodation expenses to enable him to work from the Melbourne office. As the former CEO's home was in Sydney the Board agreed in 2012 to cover the costs of his accommodation in Melbourne on the basis that the role did not require him to reside in the city.⁹⁰

The former CEO's salary was initially set by the Board as a reflection of the increasing focus on international image and recognition. This recognised that the former CEO, who was sitting CPA Australia President, was the candidate that both knew CPA Australia intimately and had the skillset to achieve this.

The external remuneration review⁹¹ conducted in 2013 was based on the required skills identified by the Board, and found that:

- the former CEO was paid higher than 75% of the CEO market included in the comparison
- the fixed remuneration of the former CEO was 32% higher than the 75th percentile of the market
- the former CEO was a seasoned manager, and if the Board had a high opinion of his individual contributions then it would be reasonable for him to be paid above market level
- the forecast increase in salary in 2014 was 3.0%, and in order to maintain a competitive position this could be included in the salary offer.

The external remuneration consultant did not provide a list of the organisations used, outside of a reference to 301 executives from 79 organisations. The report refers to the CPA Australia CEO job as operating in the same way as a normal company CEO, without excessive direction and control from the Board or members.

"This is a not-for-profit organisation. Remuneration of the CEO should not be tied to private sector organisations; instead the remuneration should be related to the public sector and other not-for-profit organisations"

Feedback received by the Review Panel has questioned the benchmarks to which the former CEO was compared, recognising that CPA Australia is a member based organisation. Figure 11 provides a range of comparable organisations as a benchmark for the salary paid to the former CPA Australia CEO. The organisations used as a comparison include those listed in Section 6.2.1, and are:

- Australian Federal employees – Secretary of Treasury (SoT)⁹², the Auditor General (AG)⁹³ and the Commissioner of Taxation⁹⁴ – used as benchmark salaries for high level financial positions in the public sphere
- Australian university Vice-Chancellors (VC) – representative of the salaries of the top 34 Vice-chancellors in Australia, which is proxy for leaders in organisations that are not geared towards profit, but to education⁹⁵

⁹⁰ CPA Australia Board, meeting minutes (February 2012).

⁹¹ Hay Group, *CEO Remuneration Review Report* (October 2013).

⁹² David Uren, 'Bureaucrats eye \$1m pay despite flat wage growth' in *The Australian* (August 24 2016) <<http://www.theaustralian.com.au/national-affairs/bureaucrats-eye-1m-pay-despite-flat-wage-growth/news-story/50d3277374ff0ab27be9dfec457f62fa>>.

⁹³ Australian National Audit Office, *The Auditor-General Annual Report 2015-16* (September 14 2016) <<https://www.anao.gov.au/work/annual-report/auditor-general-annual-report-2015-16>>.

⁹⁴ Patrick Durkin, 'ATO's Chris Jordan has sealed \$6m in pay after being reappointed until 2024' in *Australian Financial Review* (27 April 2017) <<http://www.afr.com/news/policy/tax/atos-chris-jordan-has-sealed-6m-in-pay-after-being-reappointed-until-2024-20170427-gvtoqw>>.

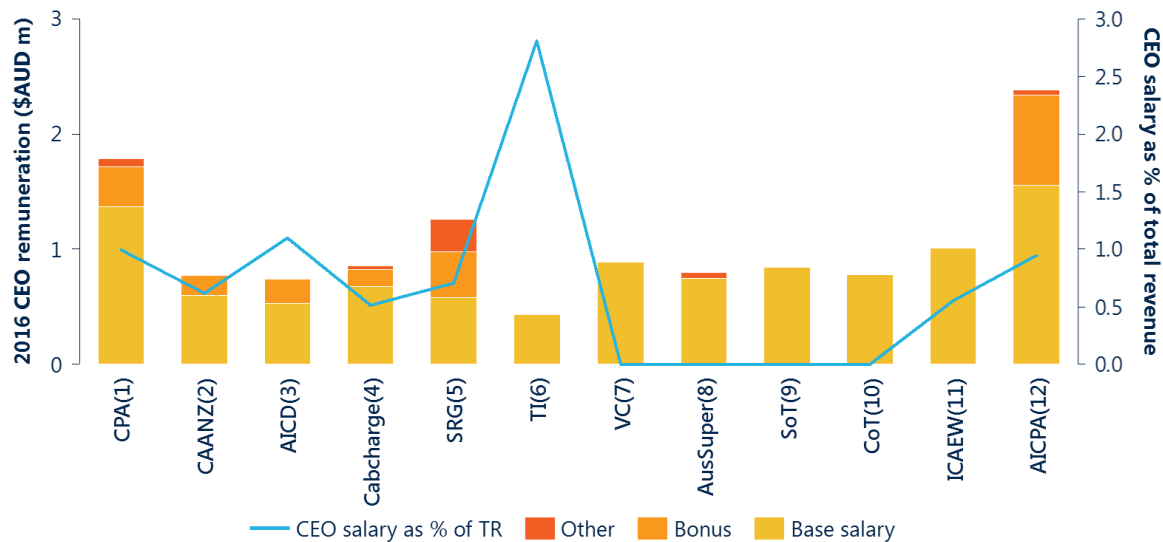
- American Institute of Certified Public Accountants(AICPA) – the world’s largest member association representing the accounting profession, with more than 418,000 members in 143 countries. The largest revenue of any accounting body and active globally⁹⁶
- The Tax Institute of Australia (TI) – Australia’s leading professional body in tax, aimed at education and professional development of taxation resources. 12,000 members, with more than half holding a Chartered Tax Advisor designation, an additional qualification to CPA or CA.

Note that in cases where bonuses are not provided but bonus structure is disclosed, the maximum bonus as a percentage of base salary has been applied.

⁹⁵ Julie Hare, ‘Uni vice-chancellors average salary package hits \$890,000’ in *The Australian* (August 5 2017) <<http://www.theaustralian.com.au/higher-education/uni-vicechancellors-average-salary-package-hits-890000/news-story/f01aaa072fe5a7ceaa0c2d8154f282fb>>.

⁹⁶ AICPA, *About the AICPA* <<http://www.aicpa.org/About/Pages/default.aspx>>.

Figure 11: CEO salary benchmarking



- (1) Includes CPA Advice, per figures provided to the Panel
- (2) CAANZ, *Annual reports* <<https://www.charteredaccountantsanz.com/about-us/governance/annual-report>>.
- (3) Edmund Tadros, 'AICD appoints Angus Armour as CEO, reveals he could earn up to \$735,000' in *Australian Financial Review* (3 August 2017) <<http://www.afr.com/business/accounting/aicd-appoints-angus-armour-as-ceo-reveals-he-could-earn-up-to-735000-20170803-gxon4s>>.
- (4) Cabcharge, *Annual report* (2016) <http://www.cabcharge.com.au/pdfsubframe.htm?pdf/Cabcharge_2016_Annual_Report.pdf?sel=conditions>.
- (5) SRG, *Annual report* (2016) <<http://clients3.weblink.com.au/pdf/SRG/01772453.pdf>>; Includes options and performance rights.
- (6) Edmund Tadros, 'Tax Institute reveals CEO pay, while accounting and governance bodies resist' in *Australian Financial Review* (21 March 2017) <<http://www.afr.com/business/accounting/tax-institute-reveals-ceo-pay-while-accounting-and-governance-bodies-resist-20170321-gv2r6w>>.
- (7) Julie Hare, 'Uni vice-chancellors average salary package hits \$890,000' in *The Australian* (5 August 2017) <<http://www.theaustralian.com.au/higher-education/uni-vicechancellors-average-salary-package-hits-890000/news-story/f01aaa072fe5a7ceaa0c2d8154f282fb>>.
- (8) Tom McIlroy, 'The little-known bureaucrats who are cashing in multi-million-dollar pay cheques' in *The Sydney Morning Herald* (3 February 2017) <<http://www.smh.com.au/federal-politics/political-news/the-little-known-bureaucrats-who-are-cashing-in-multimillion-dollar-pay-cheques-20170202-gu4kmy.html>>.
- (9) Patrick Durkin, 'ATO's Chris Jordan has sealed \$6m in pay after being reappointed until 2024' in *Australian Financial Review* (27 April 2017) <<http://www.afr.com/news/policy/tax/atos-chris-jordan-has-sealed-6m-in-pay-after-being-reappointed-until-2024-20170427-gvtoqw>>.
- (10) PQ Magazine, 'What does your chief executive get paid?' (August 2016) <<http://www.pqaccountant.com/what-does-your-chief-executive-get-paid-.html>>.
- (11) CEO Update, *Inside Compensation: CEO salaries at large organisations 2016* <<https://www.ceoupdate.com/articles/compensation/inside-compensation-ceo-salaries-large-associations-2016-top-paid-&>>.
- (12) AICPA, *Annual report* (2016) <<http://www.aicpa.org/About/AnnualReports/DownloadableDocuments/2015-16-aicpa-annual-report-financials.pdf>>.

In comparison to a range of member-based, publicly-listed, government and international organisations, the former CPA Australia CEO's salary is second only to the AICPA. The American Institute of CPA had more than twice as many members and 40% more revenue in 2016. The level of the former CEO's remuneration has clearly been an issue with many members, as expressed through interviews and submissions. Many responses have been received regarding the salary level, with the overwhelming trend to be questioning:

- How the salary was allowed to reach such high values for a member-based organisation?
- Why the Board continued to approve salary increases when third-party benchmarking noted the salary as above the 75th percentile for this range.

The Board provided their reasons for the increase in salary each year in a letter to the former CEO citing his contribution to the strength of the CPA Australia brand and culture. The Board also cites his activity in the market, as a figurehead and providing CPA Australia with a voice on issues that impact the accounting profession and professionals.⁹⁷ This has been supported by some member responses within the online survey.

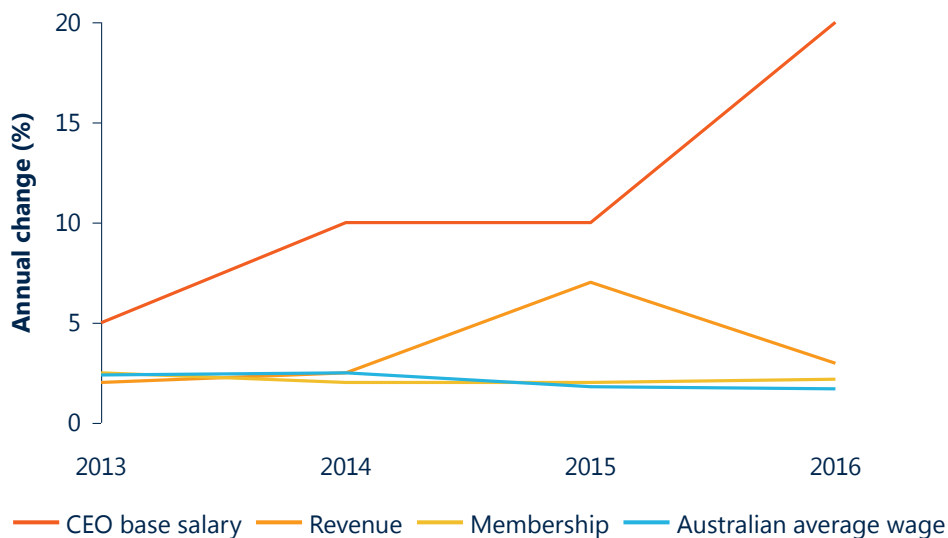
"My suggestion if you want to be the best, [the CEO salary] is not the place to make change. To attract great leaders they need to be paid well and not to compare against what a member-based organisation may or may not make. Too many bodies have made this mistake and suffered. Please do not be lured into this trap unless you want to be a local body"

The accommodation expenses paid for the former CEO, while appearing high, are in line with those paid for senior public servants and other executives who are required to spend time outside their home city.⁹⁸ As such these costs appear reasonable.

The former CEO's annual bonus, at 30% of base salary, is within a reasonable range compared to other benchmarked organisations.

The Review Panel has considered the relationship between the former CEO's salary and organisation growth metrics through information provided by CPA Australia and examination of past annual reports. This is included at Figure 12. It is evident 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.

Figure 12: Former CEO salary change against growth metrics



⁹⁷ CPA Australia Chairman, letter to CEO (October 2016).

⁹⁸ Remuneration Tribunal, Australian Government, *Determination 2015/21: Remuneration and Allowances for Holders of Full-Time and Public Office* <<http://remtribunal.gov.au/media/documents/2016/2015-determinations/2015-21-principal-determination-remuneration-and-allowances-for-holders-of-full-time-public-office/2015-21-FTOH-Determination-1.1.2016.pdf>>.

Preliminary recommendation: Set the CEO remuneration to be competitive but comparable to similar organisations

It is the view of the Review Panel that the remuneration of the CEO needs to reflect the scale and global footprint of CPA Australia. The remuneration has to be competitive but comparable to similar organisations. Based on this view, the Review Panel has identified the following preliminary recommendations which will be finalised in the Final Report:

- limit CEO notice periods to be conservative and in line with commonly adopted benchmarks
- benchmarking of CEO salary to include comparable member-based organisations
- disclose CEO salary to members in financial statements in line with best-practice transparency. While this is more rigorous than what the Corporations Act or AASB124 prescribes for not-for-profit organisations, the Board has informed the Review Panel that it is committed to this in order to improve transparency.
- improve alignment of CEO salary increases and bonus payments with membership and revenue changes and a stronger focus on member engagement.

6.2.3 Most CPA Australia executives were paid more than comparable positions at other member-based organisations

CPA Australia's executive salaries were disclosed in the Schedule 202B to members in June 2017. These salaries (provided in section 6.1), are for the KMP of CPA Australia, CPA Advice and foreign subsidiaries.

Similar to the CEO remuneration, some members have drawn comparisons between the executive salaries paid by CPA Australia and a range of benchmark organisations. These include other Australian member-based entities, federal government organisations and publicly-listed companies. Some members believe that all executives, not just the former CEO, were overpaid for the level of fiscal and personal risk that the organisation faced. However, while CPA Australia is a member based organisation, it is still a large and complex organisation that operates in many geographies, and in a technical and highly regulated sector.

The issues raised by many members are the level of executive salaries, the transparency around remuneration procedures and the inclusion of CPA Advice in CEO and COO salaries.

"As CPA Australia is a NFP, its executives and Board should be remunerated accordingly and benchmarked against equivalent bodies. This would reduce the amounts paid significantly (at least 50%), to what the Members would think is a reasonable amount"

All CPA staff, excluding the CEO, are banded into salary levels. COOs are considered at the top line 'level eight' position, while entry level positions are 'level one'. The former only had two direct reports - the two COOs. The salary packages offered to these two COOs each year was set in a two stage process:

1. People and Culture (P&C) provided the former CEO with a benchmark of 'level eight' remuneration data. This was provided to P&C 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 CPA Australia salaries were recommended to be within a range of 20% above or below this point.
2. the former CEO reviewed and made remuneration recommendations that were set for the next year.

Level 8 positions are eligible to receive up to 15% of their salaries as a bonus, in line with the performance of the CPA Australia and the performance of the individual employee. The former CEO decided whether or not the COOs had met their objectives each year.⁹⁹ The setting of Level 7 (four positions below COOs) went through the similar remuneration benchmarking arrangements.

Some members have requested the comparison be made between CPA Australia and more appropriate benchmarks than they believe have been used in setting remuneration. This underlines the case that members do not have a transparent view of how remuneration levels are set within the organisation. In order to provide clarity between the levels of executive remuneration in CPA Australia and a similar organisation, the Review Panel has compared CPA Australia executive salaries to those of the ICAEW. A summary of the two organisations is shown in Table 11.

Table 11: Comparison between CPA and ICAEW

Measure	CPA ¹⁰⁰	ICAEW ¹⁰¹
2016 members	160,000	147,000
5 year member growth to 2016 (%)	12%	10%
2016 revenue (\$AUD)	\$180,000,000	\$184,000,000
5 year revenue growth to 2016 (%)	17%	21%
Number of countries where members are based	118	154

The comparison between applicable positions in CPA Australia and ICAEW is shown in Figure 13. The review Panel acknowledges that:

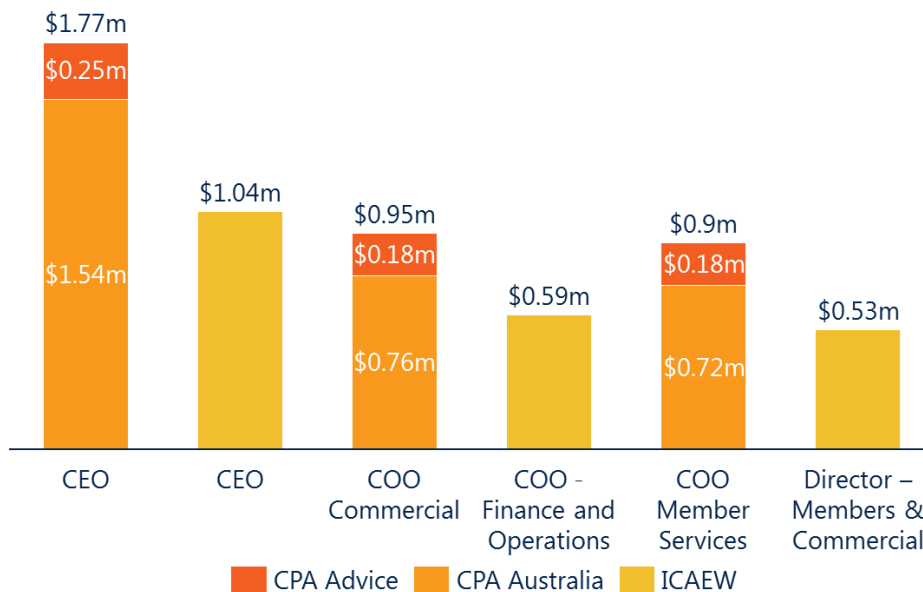
- positions are similar, but not identical between organisations, with different pressures and responsibilities
- benchmarking across additional organisations would provide increased clarity. However, most organisations either do not disclose salaries to a required level or do not have comparable positions.

⁹⁹ From CPA Australia report to ASIC regarding executive salaries

¹⁰⁰ Per information provided to Independent Review Panel by CPA Australia.

¹⁰¹ ICAEW, *Financial Statements* (2011-2016); ICAEW, *ICAEW Annual Review* (2016) Annual Review <<http://www.icaew.com/-/media/corporate/files/about-icaew/what-we-do/annual-review/2016/annual-review-report-2016.ashx?la=en>>.

Figure 13: Executive remuneration in CPA and ICAEW



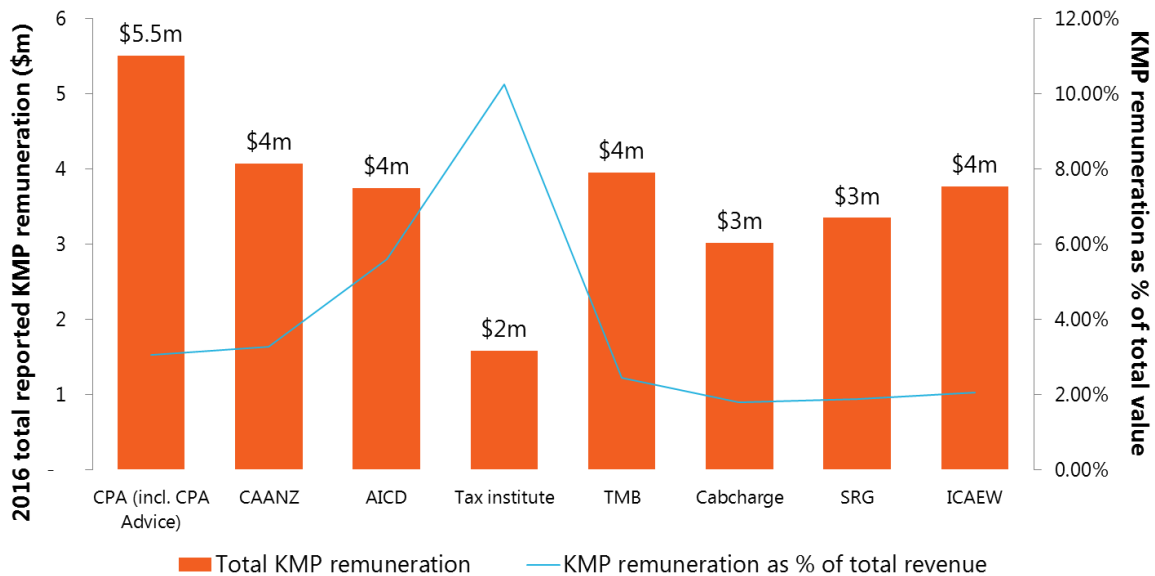
The comparison between CPA Australia and ICAEW indicates that:

- when CPA Advice remuneration is included in CPA Australia executive salaries, the three senior executives in the Australian organisation are paid substantially more than their UK counterparts, despite managing similar organisations
- the executive in charge of education is highly valued by both organisations. This is representative of two organisations that focus on training and education as key to member engagement
- the executive team at ICAEW is structured in terms of delivery portfolios, rather than geographic responsibility. ICAEW does not list regional heads as KMP.

KMP remuneration

The total 2016 CPA Australia and CPA Advice KMP remuneration package of \$5.5m needs to be compared to similar organisations to gain a perspective on whether or not this level reasonable for a member-based organisation of their size. Figure 14 compares CPA Australia, including CPA Advice salaries, to seven other organisations that are either member-based or of a similar revenue base.

Figure 14: 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 14'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 (CAANZ, 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.

There has been a tendency for [the Board] to forget that CPA Australia is a member-based organisation with its prime role being to service its members, who rely on the standing of our CPA brand. Our view is that this 'corporate' attitude has inappropriately manifested itself in 'corporate remuneration', without appreciating that CPA Australia is very different from an ASX 200 corporation: for a low risk member-based organisation, the remuneration of the Board and senior executives has been excessive"

Preliminary recommendation: Balance attractiveness and comparability to set KMP remuneration

CPA Australia needs to remunerate its KMP sufficiently in order attract top-level executives. This requirement has to be balanced against what comparable organisations are paying. Indications are that CPA Australia is on the high end of the scale.

Based on these findings, the Review Panel have identified the following preliminary recommendations which will be finalised in the Final Report:

- KMP salaries should be benchmarked annually to comparable organisations including member based organisations
- disclose KMP salaries to members in financial statements. While this is more rigorous than the Corporations Act or AASB124 prescribes for not-for-profit organisations, regaining the trust of members is key
- KMP and/or executive direct reports salaries should not be decided by the CEO alone.

6.2.4 The disclosure of key management personnel remuneration was not transparent

A significant number of submissions and consultations have raised transparency of Director and Senior Executive remuneration as a governance issue. CPA Australia's previous Annual Reports do not disclose individual remuneration paid to each Director or KMP. Instead, the Annual Report discloses the total KMP compensation, which includes all 'short-term employee benefits for Directors'.

In relation to Directors' remuneration, the CPA Australia 2016 Annual Report states that Director remuneration has been paid in accordance with Article 45 of CPA Australia's Constitution. This sets maximum remuneration for CPA Australia's Directors, President, and Deputy President as a percentage of the Auditor-General of Australia's salary.

From the information provided in CPA Australia's Annual Reports, it is not possible to determine the quantum the KMP were paid. It is, however, possible to derive the maximum remuneration paid to Directors, President and Deputy President from the information given in Annual Reports. In practice, though, it is not straightforward and only allows members and stakeholders to ascertain the maximum allowable payment, as opposed to actual remuneration paid to each Director.

Expectations about transparency have increased over time

Events over time have amplified public concerns about executive pay in Australia, cementing reporting and disclosure into law. Calls for disclosure of executive remuneration as a way to enhance corporate transparency and accountability are growing louder. This is in the same way that public disclosures have allowed listed companies' shareholders to better monitor their executive team's performance.

Best practice governance is for an organisation to be transparent and communicate clearly to stakeholders. This is especially true for member-based organisations, where the organisation exists for members' benefit. Principle 9 of the Australian Institute of Company Directors' Guiding Principles of Good Governance states:

The [B]oard should ensure that the organisation communicates with members and other stakeholders in a regular and timely manner, to the extent that the Board thinks is in the best interests of the organisation, so that they have sufficient information to make appropriately informed decisions regarding the organisation.

In regard to CPA Australia's remuneration disclosures, it is clear that members expect that this information should be fully disclosed in an easily accessible manner. This will assist in enabling members to make better informed decisions in regard to the management and governance of CPA Australia. As previously mentioned, the Board has informed the Review Panel that it is committed to this in order to improve transparency.

Preliminary recommendation: Disclose individual remuneration to improve transparency to members
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To improve transparency to members, the Review Panel preliminary recommendation is that CPA Australia discloses the individual remuneration of senior executives and Directors for the CPA Australia Limited Group, in line with best-practice reporting principles.

6.3 Concluding remarks

The Board and senior executive remuneration, salary setting procedures and disclosure have caused angst amongst members and stakeholders. The issues raised include the level of remuneration for individual positions, the methods employed to set and increase annual salary, the payout upon ceasing the former CEO's contract, and the executive salaries received by COOs and management. These issues were exacerbated by the lack of transparency in disclosing salaries and the lack of communication with members regarding remuneration.

CPA Australia is one of the largest member-based organisations for accountants in the world. In order to attract talent commensurate to the scale of the organisation competitive salaries need to be paid. However, these should still be benchmarked to a range of comparable organisations. The risks and pressures associated with a member-based organisation, particularly one that has a largely stable income from membership fees, are not the same as many of benchmark organisations historically used. CPA Australia needs to find the balance between a remuneration level that allows the organisation to maintain a high performing executive and Board, and remuneration that is appropriate for a member based organisation.

The Review Panel have provided preliminary recommendations in relation to the setting, benchmarking and disclosure of KMP remuneration that will assist CPA Australia to prevent similar issues occurring in the future. The Review Panel notes that in relation to disclosure, the Board has committed to presenting individual remuneration and explaining remuneration procedures to improve transparency.

7 Marketing strategy and expenditure

This chapter reviews CPA Australia’s marketing strategy and expenditure. It outlines the current state overview, findings, preliminary recommendations and next steps for the Review. It considers the marketing strategy and expenditure in the context of and towards the achievement of CPA Australia’s strategic goals. It does not question the merit nor otherwise of CPA Australia’s overarching goals and strategic objectives, as outlined in its Corporate Plan 2015 – 2019, as these are matters appropriately determined by the Board.

7.1 Current state overview

This section outlines CPA Australia’s marketing activities and model, baseline expenditure and the business basis for marketing.

CPA Australia undertakes marketing activities to enable delivery of its Corporate Plan

CPA Australia’s vision is “*known for being the world’s best member service organisation.*” Its goal is “*to maximise the share of people who want a career built on professional accounting skills.*”

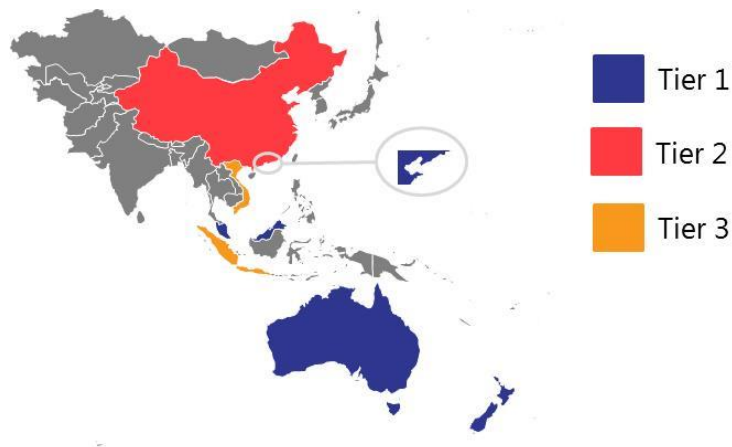
CPA Australia’s Corporate Plan 2015 – 2019 includes two objectives where marketing has a specific role. These are:

- **Leveraging our brand and broadening the audience** – example activities include marketing, brand campaigns, sponsorship, communications, digital media engagement and publishing
- **Securing the next generation of talent** – example activities include marketing the attractiveness of a career as a CPA and building relationships with employers, students and young professionals to build a pipeline of future CPAs.¹⁰²

Internationalisation is a component of CPA Australia’s marketing activities. It focusses its brand and marketing activities on specific international markets. CPA Australia has identified both its established markets and the most promising growth markets for its international marketing activities. It applies tiered geographical segments as outlined in Figure 15.

¹⁰² CPA Australia, Corporate Plan 2015-2019.

Figure 15: Tiered segments¹⁰³



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. Rather, there are a range of different marketing strategies and plans that encompass the full range of typical marketing activities. These sit across multiple teams. As the boundaries of what is and isn't a 'marketing activity' and a 'marketing expenditure' are unclear, judgments have been made as to what constitutes a marketing activity and marketing investment undertaken by CPA Australia. Where this has been done, the Review Panel is explicit as to what judgments are made and the implications of these.

CPA Australia has processes to align marketing strategies and activities to the achievement of its corporate plan. The major link between CPA Australia's Corporate Strategy and its various marketing strategies is through CPA Australia's executive leadership team approval processes. The process involves scoring new activities and projects against criteria that are in line with the Corporate Plan. For example, the Brand and Integrated Marketing Strategy was approved by the CPA Australia executive leadership team to be executed by the Executive General Manager of Brand and Integrated Marketing.¹⁰⁴ The Brand and Integrated Marketing Strategy sets the objectives and activities of the Brand and Integrated Marketing team.

The Board does not have a formal role in approval of marketing strategies or a single marketing strategy in particular. Rather, the Board approves the overall strategy and budget and delegates decision making to senior leadership under set processes and decision-making guidelines.¹⁰⁵ The Board is involved in approval of budgets for new activities and projects, which can include marketing activities and projects. This is the final step of the budgeting process at CPA Australia.

CPA Australia also exercises budgeting processes to align expenditure on marketing with its Corporate Plan. General Managers of marketing teams develop one page business and operational plans with key objectives, activities and measures that are part of the annual budgeting process.¹⁰⁶ These should align with the Corporate Plan 2015 - 2019 as they are structured around common objectives.¹⁰⁷ There is also

¹⁰³ CPA Australia, Brand and Integrated Marketing Strategy.

¹⁰⁴ It is yet to be determined whether strategies of other internal marketing related teams have received the same oversight.

¹⁰⁵ These include: Budget Pack; New Activity Criteria and Scoring Guide attached; Integrated Performance Report; and Delegations Framework.

¹⁰⁶ Interview of CPA Australia employee (2017).

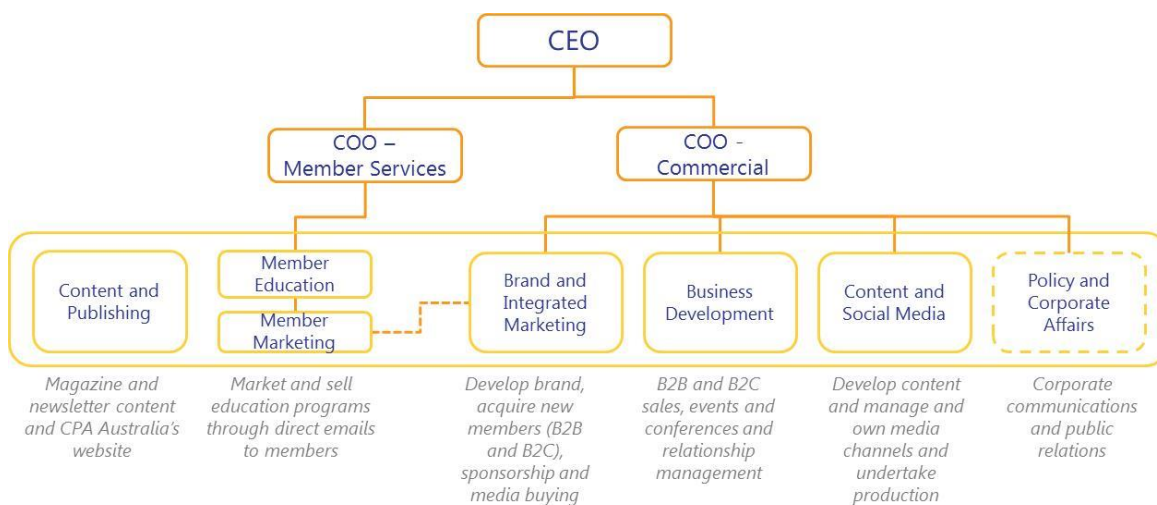
¹⁰⁷ CPA Australia, Brand and Integrated Marketing Plan (2017).

the ability to provide individual proposals to the respective COO and CEO to access one-off budgets for specific initiatives outside the annual budget process.¹⁰⁸

Marketing activities are delivered by six teams across two portfolios

CPA Australia’s delivery and execution of the marketing strategy is split across a number of teams in the two COO portfolios. Together, these teams engage in the full suite of marketing, brand, relationship management, content development, sales, publishing and corporate communications activities. The policy component of Policy and Corporate Affairs is excluded as a marketing-related activity and only the Corporate Affairs component of this team is included within the scope of marketing. The General Manager of these teams reports to the two COOs, who in turn report to the CEO. Figure 16 outlines the structure and key activities within each team.

Figure 16: Marketing structure at CPA Australia¹⁰⁹



Marketing is a significant investment for CPA Australia

CPA Australia invests a significant amount of its revenue on marketing on an annual basis. In 2016 this was a total of approximately \$30m. This is approximately 17% of its total turnover.¹¹⁰ The total amount CPA Australia spends on marketing depends on the calculation approach and the scope of what constitutes ‘marketing activities’ (as discussed earlier). For example, the total amount of expenditure in marketing related business units (outlined above) was \$34.1m in 2016. The difference between the Annual Report figure and the figure that encompasses total budgets within business units is due to the elements included in the calculation. Two considerations that cause discrepancy in these are:

- **Marketing time spent by staff outside of those business units** – for example, the annual report includes a proportion of executive leadership team members’ time on marketing activities as part of the expenditure under marketing, promotion and publication expenses. This is not captured when aggregating expenditure at the business unit level.
- **Non-marketing activities captured in business units’ budgets** – The expenditure within business units that is captured in their budgets includes time spend by staff for non-marketing related

¹⁰⁸ Interview of CPA Australia employee (2017).

¹⁰⁹ CPA Australia, Annual report 2016 (2016) <<http://cpaaustraliaannualreport.realviewdigital.com/?iid=151708#folio=1>>.

¹¹⁰ Information Provided to CPA Australia members, May 2017.

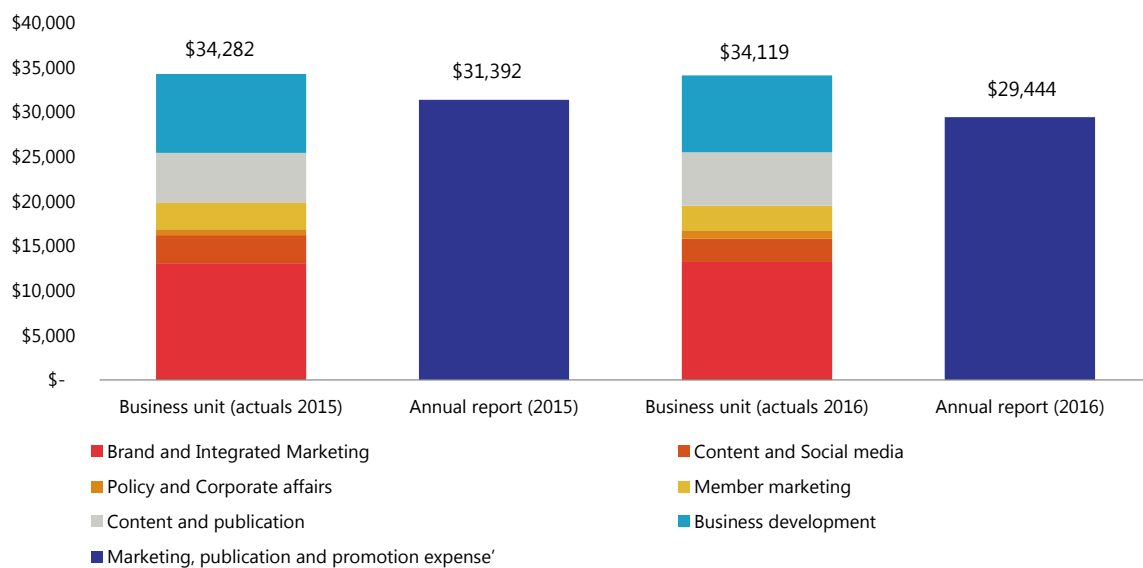
business units such as strategy, governance, training and other expenditure items. This increases the total budgets of these business units.

- **What constitutes marketing** – it can be argued that publications are not marketing expenditure and could be excluded, as advocacy has. The precise boundaries of what is and isn't marketing expenditure is of less concern for the purposes of this report. The major marketing activities and expenses are included and explored in some detail.

Marketing investment has been steady. Over the last decade, CPA Australia has invested between 16% and 20% of its annual turnover in marketing activities.¹¹¹ Figure 17 outlines the total expenditure over the last three years split by the different cost centres where marketing related activities are undertaken. It also includes the line item in the annual report titled 'marketing, publication and promotion expense'. This demonstrates consistent investment over this period. This internal management reporting data includes the cost of staff involved in these cost centres and will not always match external reporting data in the annual report. This helps to understand the discrepancy between this data and the annual report data.

Figure 17: Expenditure on business units largely engaged in marketing, promotions and publications 2015 - 2017¹¹²

Expenditure (\$'000s)



CPA Australia engages in a wide range of marketing activities

CPA Australia engages in a wide range of marketing activities, with more than 100 different types of expenditure.¹¹³ Table 12 outlines CPA's major and most recognised marketing strategies over the last five years.

¹¹¹ Information Provided to CPA Australia members, May 2017.

¹¹² CPA Australia, Brand and Integrated Marketing P&L (2017); Social Media and Content P&L (2017); Information Provided to CPA Australia members (May 2017); Annual report, CPA Australia, 2015 and 2016.

¹¹³ Information Provided to CPA Australia members (May 2017).

The value of these individual transactions has been provided to the Review Panel but has not been disclosed in this report because it had not been otherwise publicly disclosed and was considered to be commercial-in-confidence and/or subject to third party contractual arrangements.

Table 12: Summary of major marketing activities over the last 5 years¹¹⁴

Marketing activity	Details of marketing activity	Investment
Brand building and engagement		
Sport sponsorships	<p>CPA Australia has engaged in two large scale and high profile sports sponsorship agreements. These sponsorships are intended to align with the strategic objective to broaden the audience:</p> <ul style="list-style-type: none"> • Australian Open tennis partnership - The Australian Open sponsorship was targeted at employers and young professionals in Australia, Hong Kong and China. The CPA Australia logo is to be visible alongside recognised brands such as Kia and Rolex during games and broadcasting. The aim was to align CPA Australia with premium consumer brands and amplify the brand in international markets. • National Basketball League (NBL) partnership – The objective of the NBL partnership is to build awareness and credibility in China and engage with Australian audiences. The CPA logo is to be visible during games, broadcasting and at formal NBL events. <p>In addition to the above, CPA Australia also sponsored the South Sydney Rabbitohs Rugby League team. The objective of this sponsorship was not as clear from the documents provided as the above mentioned sponsorships. The sponsorship contained a large proportion of benefits that were entertainment related.</p>	<p>~\$3.5m in total for:</p> <ul style="list-style-type: none"> • Australian Open - for four years¹¹⁵ • NBL - for one year¹¹⁶ • Rabbitohs - for two years¹¹⁷
The Naked CEO	<p>The Naked CEO started as a website channel and then progressed into a book of the same name. The strategy was intended to align with the objective to secure the next generation of talent by leveraging the persona and profile of the former CEO. The focus is on students and young professionals. The Naked CEO aimed to combine a mentor perspective with practical career advice to demonstrate how CPA Australia is committed to professional development.</p>	<p>\$1.8m between 2015 and 2017¹¹⁸</p>

¹¹⁴ Information Provided to CPA Australia members (May 2017).

¹¹⁵ CPA Australia, *Australian Open Sponsorship presentation*; CPA Australia, *Australian Open Post-Tournament report*.

¹¹⁶ CPA Australia, *NBL Sponsorship Presentation*; CPA Australia, *NBL Sponsorship End of Season report*.

¹¹⁷ Advice provided by CPA Australia employee, Agreement between South Sydney District Rugby League Football Club Limited and CPA Australia, October 2016.

¹¹⁸ CPA Australia, *Brand and Integrated Marketing P&L (2017)*; *Social Media and Content P&L (2017)*.

Marketing activity	Details of marketing activity	Investment
<i>In Conversation with Alex Malley</i>	The TV show, <i>In Conversation with Alex Malley</i> , was intended to broaden CPA Australia’s audience, including engaging with younger audiences, and building a pipeline of talent to CPA Australia careers. The TV show included 3 series of 8 weekly episodes where the former CEO would interview globally recognised leaders. This is also accompanied by a website.	\$4.16m between 2015 and 2016 ¹¹⁹
Other partnerships and sponsorships	<p>Qantas partnership – CPA Australia entered into a partnership with Qantas to advertise and publish in its inflight Spirit of Australia magazines. This includes banner advertising alongside the flight path maps and a High Flyer interview series between the former CEO and CPA members who are emerging career high flyers and future leaders. The partnership also allowed CPA Australia to place INTHEBLACK in Qantas lounges.</p> <p>FightMND sponsorship - further investigation is being undertaken to explore the details surrounding this sponsorship.</p> <p>Other sponsorships - CPA Australia also engages in other sponsorship activities. The majority of these are targeted at events and conferences that are relevant to CPA Australia members and stakeholders through accounting, tax and finance topic areas.¹²⁰</p>	<p>~\$1.25m in total for:</p> <ul style="list-style-type: none"> • Qantas partnership (2016 – 2017) - for one year, negotiated annually¹²¹ • FightMND sponsorship (2015 – 2017) - for three years
Social media channel management	CPA Australia has a social media content strategy and engages with members through 30 digital accounts across many social media platforms. Platforms include Facebook, Twitter and LinkedIn as well as dedicated channels for Chinese social media services such as WeChat. There are separate accounts for the different activities and products through which CPA Australia seeks to engage with audiences.	~\$1m per year
Corporate communications and content		
Publications	CPA Australia invests in a number of publications that are aimed at sharing insights with the profession and the public. These include INTHEBLACK and intheblack.com (CPA Australia’s flagship publication), INPRACTICE magazines and newsletters as well as Australian Accounting Review, CPA Update and CPA Tax News. These are also revenue generating through paid subscriptions and sales.	<p>INTHEBLACK - \$4.5m (2016)</p> <p>CPA Update - \$100k (2016)</p> <p>CPA Tax News - \$47k (2016)¹²²</p>

¹¹⁹ Ibid.

¹²⁰ CPA Australia, *Brand and Integrated Marketing Strategy*.

¹²¹ CPA Australia, *QANTAS Partnership pack*.

¹²² CPA Australia, *Content and Publishing P&L* (2016 actuals).

Business development and events

Events	CPA's Business Development and Member Marketing teams puts on networking events, boot camps and other events to engage young professionals, students and employers. These activities are intended to raise the profile of CPA Australia and acquire future talent into the CPA designation.	\$4.5m in direct event costs 2015 - 2017 ¹²³
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Members have expressed concerns about marketing strategies and expenditure

Concerns have been raised by members in response to CPA Australia's marketing strategy, the specific investments and initiatives to execute this strategy, and the way in which members have been engaged with the strategy.

An overwhelming majority of members who have participated in this Review express concerns. They are critical of CPA Australia's marketing activities and the level of expenditure on marketing. Of the submissions received related to marketing, more than 90% were critical of CPA Australia's marketing activities and investments.

Four overarching themes emerge from member feedback. These are:

1. The primary focus of marketing activities should be to promote CPA Australia careers to future professionals;
2. A secondary focus of marketing activities should be to promote the value of CPA Australia professionals to the public;
3. Sponsorship and brand building campaigns have limited benefits to members and are a misdirection of CPA Australia funds; and
4. Marketing investment is too high and should be redirected to training and development activities.

Many members say that they have little visibility into the marketing strategy and the expenditure levels, although some state that marketing is ultimately an operational decision for CPA Australia.

Most members express the view that marketing activities should be brought back to the core needs of the membership and the profession. This is illustrated by the extracts of submissions outlined in Figure 18.

Figure 18: Extracts of member submissions



¹²³ CPA Australia, Business Development P&L; CPA Australia, member Marketing P&L.

Members expressed concerns that expenditure is too high for a professional membership organisation. Many members express limited knowledge of expenditure levels and where it is directed, yet feel that the expenditure is wasteful, misdirected or too high. In particular, there is a theme that marketing expenditure should be reinvested in core member services, such as training and education. Extracts of submissions that illustrate this are outlined in Figure 19.

Figure 19: Extracts of member submissions

"I [am] interested in limits given that largess of this budget to date. The marketing budget should have a cap on it of x % of revenue, and this should be less than investing in existing member training and technical advocates."

"The 2016 annual report reveals \$17m expenditure on Training and Development compared to \$29M on Marketing and Promotion. I believe a more appropriate expenditure outcome is say 1/3 marketing and promotion and 2/3 training and Development."

Members also express concerns over governance practices related to marketing expenditure

A perception of poor governance practice exists amongst members, in part, stemming from a decision by CPA Australia to enter into a major corporate sponsorship with the NBL. At the time of entering into the sponsorship contract, a Board member of CPA Australia was also the Chair of the NBL. Evidence points to proper formal governance practice with the Board member declaring the conflict of interest, stepping aside from voting on the decision and not being involved in any contract negotiations.¹²⁴ The contract amount was also disclosed by CPA Australia in the annual report.

However, a perception of poor practice remained amongst member submissions. The decision appears to have eroded member and public confidence in the process used to enter into the partnership. It has also raised concerns about potential improper intentions behind pursuing this strategy and whether they were in the best interests of CPA Australia and its members. Relevant extracts of member submissions that highlight this are outlined on Figure 20.

Figure 20: Extracts of member submissions

"We need to stop nbl sponsorship (and undergo formal review into this - how is it possible Wade is still on board when clearly this investment is a conflict of interest)"

"All board members with conflict of interests (such as seats on domestic basketball organisations) should have no part in members funds being directed towards those conflict of interest bodies."

¹²⁴ Proof Committee Hansard, Senate, 5 September 2017,

7.2 Findings

This section outlines the Review Panel’s findings with respect to CPA Australia’s marketing strategy and expenditure.

The findings outlined in this section are that:

- 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.

Each is discussed below.

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

This section outlines findings with respect to CPA Australia’s overall marketing objectives and expenditure. Following this section, marketing activities that have been the subject of member concerns are discussed in greater detail.

A number of members recognise the success of marketing activities

A number of members support components of the marketing strategy, expenditure and how it is executed. These members 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. Extracts of relevant submissions are outlined in Figure 21.

Figure 21: Extracts of member submissions



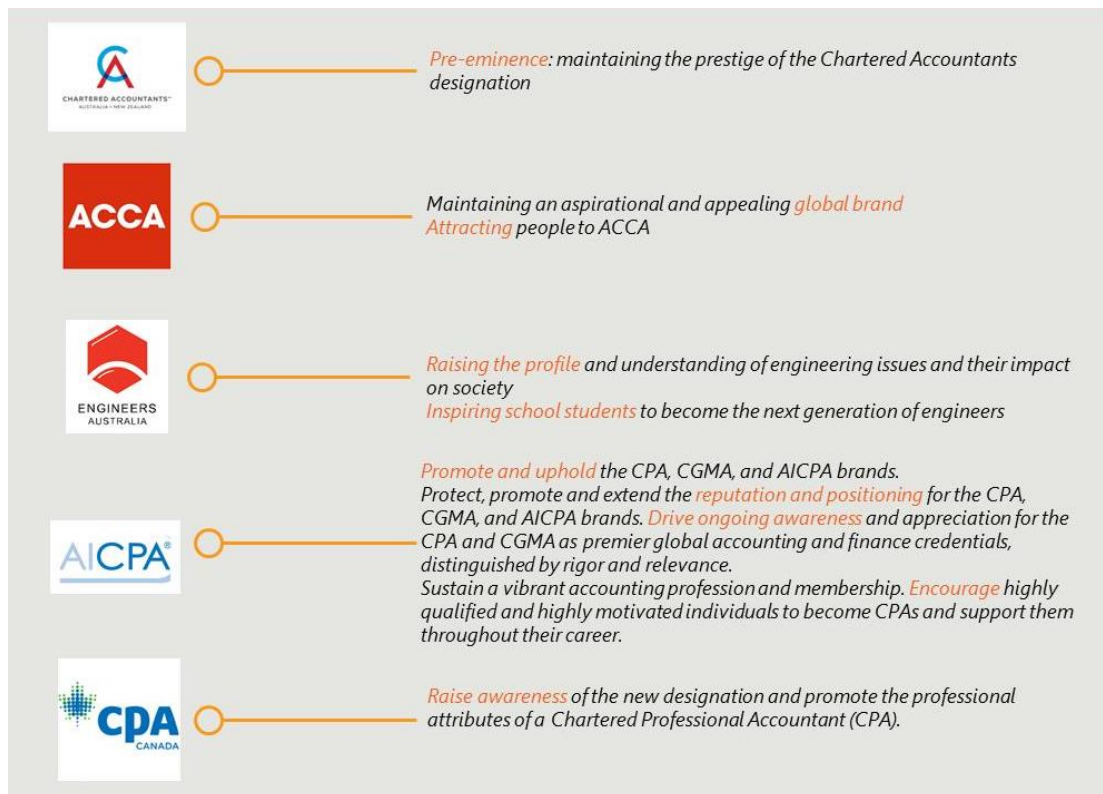
CPA Australia’s marketing objectives are typical of comparable organisations

A review of comparable organisations in Australia and internationally reveals that CPA Australia’s marketing objectives are in line with common strategic focus. This suggests that the marketing budget is allocated to the pursuit of objectives that fit with other comparable organisations. The reviewed organisations have common marketing goals that are often expressed along the following three themes:

1. **Maintaining the prestige of the profession and its members** – building the brand of the organisation and its members in the eyes of employers, governments and the public;
2. **Driving growth in the membership base of the organisation** – attracting students and young professionals to a career in the profession;
3. **Building awareness in international growth markets and a global brand** – recognising the increasing internationalisation of membership bases and member presence in international locations, the need to build awareness and prestige in those employment and student markets.

These are all consistent with CPA Australia’s marketing goals to attract young professionals, build the prestige of the brand and CPAs and build awareness and engagement in key international growth markets. Below is a snapshot of marketing strategies of comparable organisations that highlight the focus on the above three strategic themes.¹²⁵

Figure 22 Marketing objectives of comparable organisations



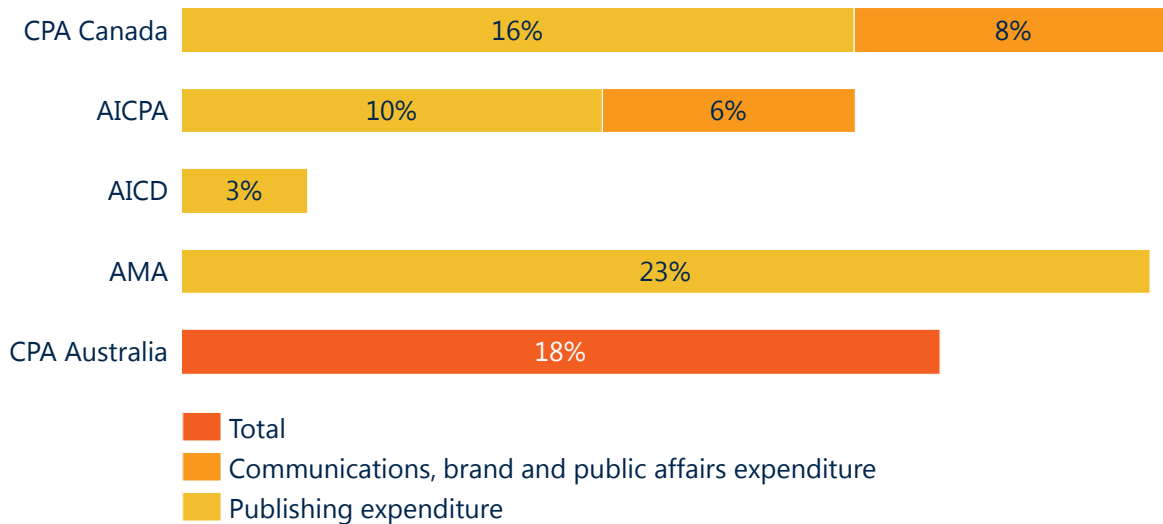
Expenditure is in range with comparable organisations

It appears from comparison with other professional member organisations that CPA Australia’s investment in marketing activities is within an appropriate range. While data is not readily available, it is common for professional member organisations to spend between 15% and 23% of their overall expenditure on publications, communications, branding, media and public affairs.¹²⁶ Therefore, the approximately 18% level that CPA Australia spent in the most recent year is within that range (Figure 23).

¹²⁵ Publicly available annual reports.

¹²⁶ Ibid.

Figure 23: Comparison of marketing spend in 2016 as a percentage of expenditure – professional membership organisations¹²⁷



CPA Australia can justify at least equivalent marketing expenditure of the organisations that it has been compared with. Within this overall expenditure the question remains whether the right mix and set of marketing activities has been included. The balance of specific expenditure between brand building activities and recruitment and marketing for current members is discussed in the following sections.

CPA Australia has developed a rationale behind its overall marketing objectives and expenditure

Marketing investment and the strategies executed should match strategic and business needs. Table 13 summarises the rationale behind key components of CPA’s marketing objectives and expenditure levels.

Table 13: Business basis for marketing

Component	Summary of rationale
Level of investment in marketing	The business basis for marketing investment is more pronounced for CPA Australia. CPA Australia competes with CAANZ and ~175 other international accounting bodies in its international markets. It therefore has an imperative to differentiate itself and marketing has a role to achieve this.
Broad range of activities, strategies and multiple channels and platforms	CPA Australia needs to achieve its strategic goals and marketing objectives in the context of a fragmented media environment, a time poor audience and long lead time from first touch point to CPA designation. CPA Australia estimates a 6 - 10 year period from first contact to designation conversion. ¹²⁸ This shapes its brand building activities and content strategies which need to accommodate long time horizons and be relevant to and sticky with target audiences.

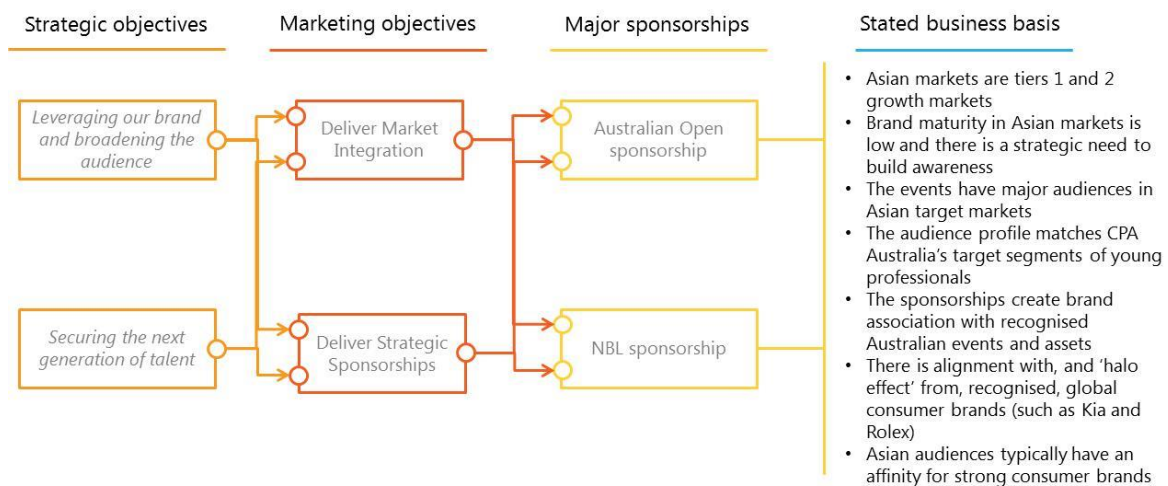
¹²⁷ Ibid.

¹²⁸ CPA Australia, *Naked CEO Content and Marketing Strategy*.

Component	Summary of rationale
A focus on international markets	CPA Australia has had a continuous and growing presence in Asia and the UK for around 60 years with international revenue accounting for 26% of its 2016 revenue. ¹²⁹ It also operates in a globally competitive market for professional associations and has an increasingly international and mobile workforce. It needs to sustain and build international revenue growth and ensure the enduring value of international students who invest in accounting degrees and accreditation at Australian universities.

CPA Australia can also justify how it has executed specific activities within its international marketing and brand strategy. Figure 24 outlines the strategic alignment between the major sponsorships and the achievement of CPA’s strategic and marketing objectives. It also outlines the business basis for these investments that has been uncovered from discussions with employees and review of internal documents.¹³⁰

Figure 24: Analysis of alignment of major sponsorships with strategic and marketing objectives¹³¹



Marketing investments also appear to have a measurable return

Information provided on key metrics suggests that marketing investments have had a positive return. This is based on revenue growth and metrics from specific marketing activities.

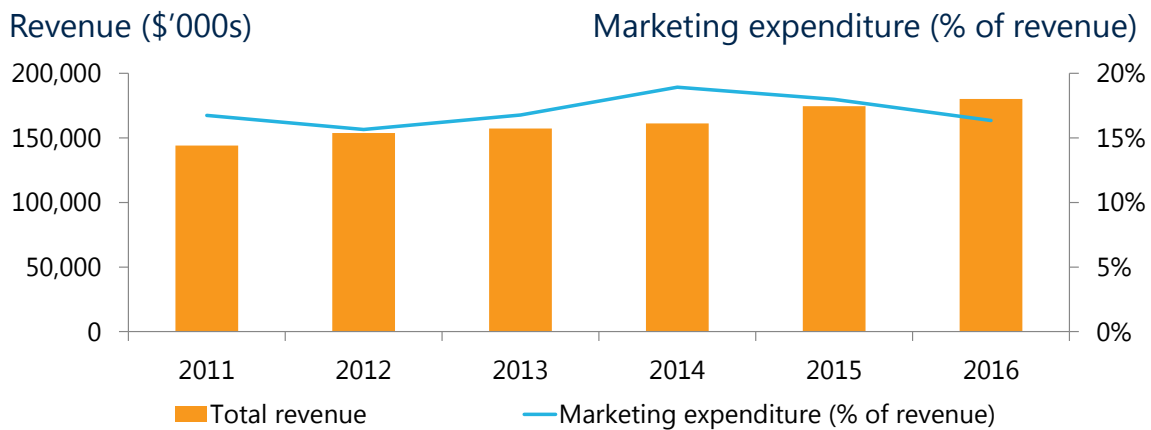
While it is difficult to attribute the direct causal relationship between marketing and growth, revenue growth indicates a measurable return from marketing investment. CPA Australia’s revenue has grown between 2.2% and 8.2% per year from 2011 to 2016 with a compound annual growth rate (CAGR) of 4.6%. Marketing spend during this period has grown at a similar annual rate of between 3.2% and 8.2% with a CAGR of 5.2% to ensure a steady proportion of total revenue. The relationship between revenue and marketing spend is outlined in Figure 25.

¹²⁹ CPA Australia, *Annual report (2016)* <<http://cpaaustraliaannualreport.realviewdigital.com/?iid=151708#folio=1>>.

¹³⁰ A similar process will be undertaken with other marketing activities once access to additional documents has been obtained by the panel.

¹³¹ CPA Australia, *CPA Corporate Plan 2015 – 2019; Brand Integrated Marketing Plan (2017)*; Interviews with CPA employees (2017).

Figure 25: Marketing expenditure and revenue 2011 - 2016¹³²



This relationship between revenue and marketing spend is indicative of the effectiveness of marketing investment. While there are many drivers of revenue growth, of which marketing is only one, it is a sign of effective marketing if spend is in line with said growth. This applies more where the organisation is investing to achieve growth objectives, which is the case for CPA Australia.

There is further evidence that brand building activities have been effective in the Australian market. An internal brand study undertaken in 2015 found that brand building activities have contributed to 40% of Australian young professionals stating that CPA Australia would be their preferred accounting body designation, more than double that of competitors. Awareness of CPA Australia the Australian market is 64% for students, 85% for young professionals and 94% for employers who have positive associations with the organisation. The top 3 brand attributes for each stakeholder group are outlined in Figure 26.¹³³

Figure 26: Top-3 brand attributes by stakeholder group¹³⁴



According to CPA Australia internal brand and marketing studies, the metrics relating to the marketing activities indicate they are typically high performing. Table 14 summarises the return from key marketing activities where the data is available and reported. Membership growth figures are not shown as brand building and international market entry is often a long term process and there is multi-year lead time between first contact and designation.

¹³² CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

¹³³ CPA Australia, Research & Analytics Benchmark Presentation, Australia & China (7 August 2015).

¹³⁴ CPA Australia, Research & Analytics Benchmark Presentation, Australia & China (7 August 2015).

Table 14: Return on CPA Australia’s marketing¹³⁵

Marketing activity	Marketing return on investment
Australian Open tennis partnership	The gross value of this investment is a factor of 8 in return on investment on media spend to media value, and 5% over performance of targets. There were 676 million hours viewed across 200 countries. ¹³⁶ Brand building in new international markets is often a long term investment with presence needed for a number of years before it leads to large scale increases in membership and membership revenue.
National Basketball League (NBL) partnership	The gross value of the investment is a factor of 14.7 in return on investment in Australia and China on media spend to media value. Approximately 80% of the media value is in China, the key target market for the investment. ¹³⁷ As with the above sponsorship, the international brand building process is a long term investment with membership numbers targeted to increase in the future.
The Naked CEO	By May 2017 the site had received six million visits. The book has been distributed to 38 countries, translated into five languages in CPA Australia markets and ranked seven on the bestselling business books of all time. It was also the bestselling book in the business and management categories in Australia in 2014 and 2015. There is also anecdotal evidence that it has led to growth in designations. ¹³⁸
In Conversation with Alex Malley	This TV show has been seen by an audience of 4.6m people in seasons 1 and 2 and 1.4m in season 3. The media value exceeded the investment value by \$1m in seasons 2 and 3 and \$1.5m in season 3. The total investment returned a media value of 3.2 multiple ROI. ¹³⁹
INTHEBLACK publications	INTHEBLACK.com had one million site visits as at May 2017.

Preliminary recommendation: Ensure marketing investments align to an appropriately set corporate strategy and are executed accordingly

The Review Panel observes that CPA Australia has invested an appropriate amount of money in marketing activities that: align with its Corporate Plan; suggest a return on investment; and assist in the pursuit of its strategic objectives.

It should be noted that there have been a number of 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. Findings and preliminary recommendations in relation to these marketing activities are discussed in the sections following. In relation to CPA Australia’s overall marketing activities and expenditure, it is the Review Panel’s preliminary recommendation that CPA Australia should:

- exercise rigorous processes that align marketing strategies, activities and budgets with CPA Australia’s Corporate Plan

¹³⁵ Information provided to CPA Australia members (May 2017).

¹³⁶ CPA Australia, *Australian Open Sponsorship presentation; Australian Open Post-Tournament report*.

¹³⁷ CPA Australia, *NBL Sponsorship Presentation; NBL Sponsorship End of Season report*.

¹³⁸ Interview with CPA employee (2017)

¹³⁹ CPA Australia, *NEC Partnership Report* (12 July 2017).

- continue with brand building investments that have long term impacts on awareness, engagement and conversion in target markets (not to the exclusion of marketing activities focussed on existing members)
- 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.

The Review Panel also observes that this review of marketing activities and investments has been undertaken in the context of the Corporate Plan. The Review Panel also suggests that the overall corporate strategy be reviewed to ensure it is best fit for CPA Australia and members' needs.

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

CPA Australia has executed its marketing objectives using a number of marketing activities that depart from those of comparable organisations. These have served to differentiate CPA Australia from its competitors and substitutes in a competitive environment for professional membership and attention of acquisition targets. These activities also represent a significant component of the marketing budget for CPA Australia and have resulted in tensions among members and the public.

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. Figure 27 summarises the strategies that align and differ from other organisations.¹⁴⁰

¹⁴⁰ Publicly available annual reports.

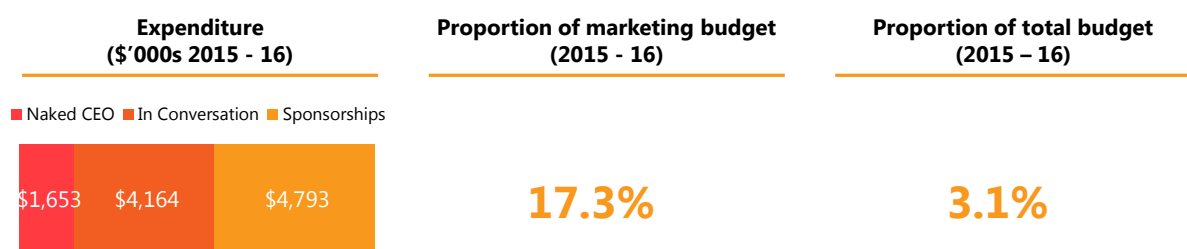
Figure 27: Comparison of CPA Australia marketing activities that align and differ from other like organisations



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. The expenditure profile is outlined in Figure 28.

Figure 28: Expenditure profile on these activities¹⁴¹



These investments include large scale outdoor placements that have been highly visible at airports around Australia. CPA Australia spent \$1.2m between 2015 and 2017 on outdoor placement for *In Conversation with Alex Malley* and another \$350k in 2015 on the Naked CEO.

Certain marketing activities have raised concerns from members

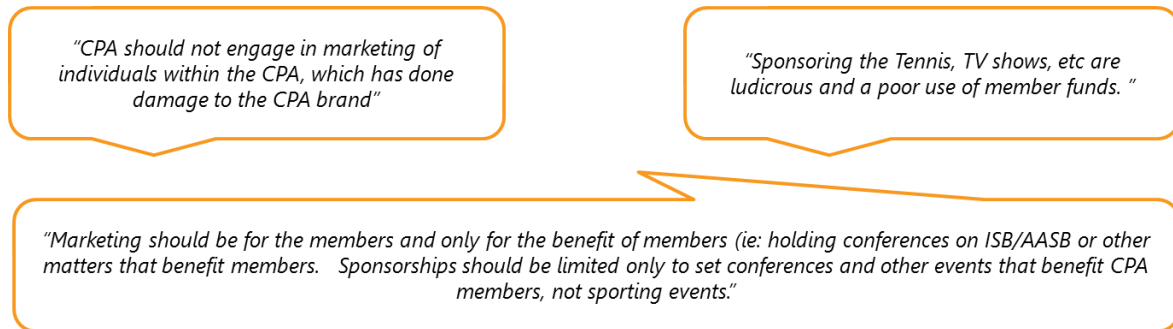
The marketing strategy and expenditure that has departed from common practice of professional member organisations has been a source of tension for members and the public. Common themes from submissions are that:

¹⁴¹ CPA Australia, *Brand and Integrated Marketing P&L (2017); Social Media and Content P&L (2017); Annual Report (2016)*.

- 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.

Figure 29 outlines extracts of submissions that illustrate these themes.

Figure 29: Extracts of member submissions



Preliminary recommendation: Maintain marketing activities that differentiate CPA Australia with proper oversight and caution

The Review Panel observes that CPA Australia has engaged in marketing and brand building activities that help to differentiate it from competitors and substitutes, and which can assist in a competitive environment for professional membership and international growth. These marketing strategies must, however, 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.

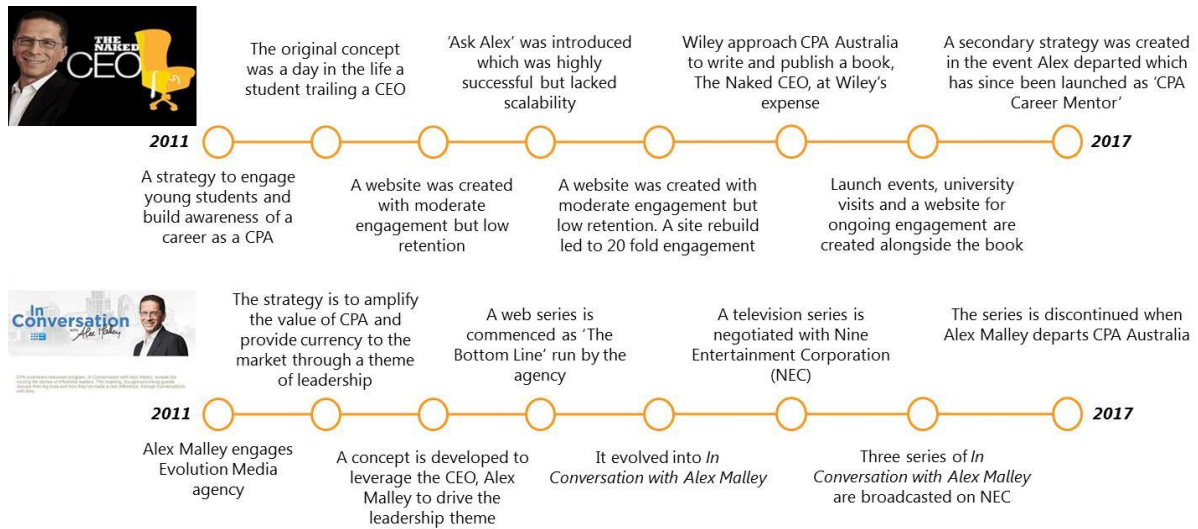
The Review Panel also observes that these activities have led to tension and confusion amongst members and stakeholders. Therefore, the Review Panel suggests the following preliminary recommendations:

- CPA Australia ensure greater member understanding of marketing activities, especially activities that depart from expected practice (addressed in greater detail in Section 7.2.4)
- CPA Australia ensure its business case development and approval process for large scale and prominent marketing activities is sufficiently strong, has a proper focus on risk identification and mitigation, and includes consideration of the needs of members
- the Corporate Strategy, set by the Board, should outline specific strategic brand building initiatives to give greater guidance and oversight as to appropriate mechanisms to achieve corporate goals.

7.2.3 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. A summary of their evolution at CPA Australia is outlined in Figure 30.

Figure 30: Evolution of marketing activities: *The Naked CEO* and *In Conversation with Alex Malley*¹⁴²



There is potential rationale in leveraging the skills, expertise, track record and profile of a senior individual as a brand asset for an organisation. Indeed, the Review Panel is aware of a number of organisations that sought to imitate this strategy. However, it is the view of the Review Panel that the way in which this was managed, and the strong emphasis on the personal brand over the organisational brand, has led to reputational risks for CPA Australia.

These activities that centre on the former CEO are unique to CPA Australia

The departure of major marketing activities at CPA Australia from common practice is discussed in section 4.2.1. The major brand building activities centred on the former CEO are two of these identified major activities. 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 only comparable activity sits with Law Institute of Victoria, which has a twitter feed for its President. This is an incomparable scale to CPA Australia's activities and doesn't reference the President in his or her personal capacity.

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. A sample of brand assets with CPA Australia's prominence noted is outlined on Figure 31. There is also evidence that the prominence of the CPA Australia brand decreased as the television series progressed.¹⁴³ This tends to weaken the audience's association with the CPA Australia brand and reduces the return.

¹⁴² Advice provided by CPA employees; *The Naked CEO* student acquisition campaign, Business Case, CPA Australia, 2011.

¹⁴³ Interview with senior CPA Australia employee (2017).

Figure 31: CPA Australia brand assets with the former CEO as the primary brand



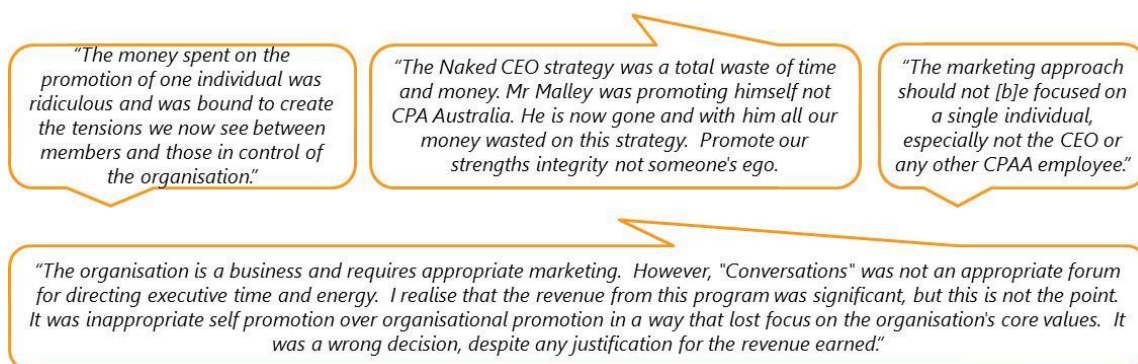
These brand building activities have created tension and criticism amongst members

Members criticise these investments due to the over-emphasis on the former CEO in his individual capacity rather than as a representative CPA Australia or its membership. Common themes from submissions are that:

- the primary focus of marketing activities should be to promote CPA careers to future professionals
- the secondary focus of marketing activities should be to promote the value of CPA Australia professionals to the public
- marketing content should promote members and their achievements rather than a senior CPA Australia employee.

Figure 32 provides extracts of submissions that illustrate these themes.

Figure 32: Extracts of member submissions



Some activities may have been a misdirection of CPA Australia funds

CPA Australia's investment in a number of major activities was questionable. Highlighting this are some specific activities and investments that are difficult to align with CPA Australia's strategic and marketing objectives. These include:

- **Naked CEO promotion in Times Square, New York City** – CPA Australia has little membership presence or need to promote in the USA and it is not one of their tiers 1 to 3 growth markets.
- **Airport promotion for the Naked CEO** – The stated objectives of the Naked CEO were to “develop an acquisition vehicle for engaging and recruiting new members from the university student community.”¹⁴⁴ However, outdoor placements expenses for the Naked CEO were \$350k in 2015 with evidence of many billboards at domestic airports, where the target segment offers limited traffic and attention.
- **Network selection for *In Conversation with Alex Malley*** – CPA Australia locked its network agreement with Nine Entertainment Group. This prevented leveraging other networks and sponsorships for the benefit of CPA Australia (such as Channel 7 and its coverage of the Australian Open).
- **Personalities participating in the *In Conversation with Alex Malley* series** – It is not easy to link participants in the television series with the overarching objective and goal of the investment to demonstrate business, community and social leadership attributes to attract young professionals and students to CPA Australia. For example, it is not easy to see how the decision to interview Henry Winkler, who has associations with celebrities and to a past generation, is defensibly linked to leadership for younger generations.
- **Entertainment benefits through sponsorship agreements** – CPA Australia’s sponsorship agreements with the Rabbitohs, NBL and Australian Open included entertainment benefits (such as free seats, pre-sale tickets for members, parking, access to exclusive events and other opportunities for CPA Australia to entertain). The Rabbitohs sponsorship, in particular, contained a large proportion of benefits that were entertainment related. While these can be used for the benefit of members (through business development and direct member access), they have a more tenuous link to membership and marketing outcomes and would add cost to the sponsorship agreements.¹⁴⁵

It is common practice to evaluate and review large expenditure items and new strategies, including to commission studies to ascertain whether significant and high profile investments in brand building are achieving the outcomes and objectives sought. CPA Australia has undertaken brand studies in the past and it would be good practice to continue to do so going forward.

The fallout from this has been costly for CPA Australia

A brand centred on an individual has created financial and reputation risks for CPA Australia. When the former CEO left the organisation, the investment in the *Naked CEO* and *In Conversation with Alex Malley* was essentially lost. Some CPA Australia employees also suggested some brand damage occurred to CPA Australia. Divisional Councils also expressed concern that the respect and trust of members, the public, government and media needs to be rebuilt as a result of the fallout.

Reputational risks were identified in the original Business Case for the Naked CEO concept. The Business Case states, “*The reputational risks of taking on an edgy new concept may, if perceived negatively in the market place, impact the brand and therefore the membership*”. The Business Case excludes any mitigation measures to avoid the consequences of this risk.¹⁴⁶

¹⁴⁴ The Naked CEO student acquisition campaign, Business Case, CPA Australia, 2011.

¹⁴⁵ Agreements between CPA Australia and South Sydney District Football Club (October 2016), Tennis Australia Limited (2014), National Basketball League (October 2016)

¹⁴⁶ The Naked CEO student acquisition campaign, Business Case, CPA Australia, 2011.

In addition, CPA Australia is unable to continue with the activities, leading to one-off exit costs. Contractual arrangements with the Nine Entertainment Group state that if the former CEO becomes unavailable, the production will be cancelled at CPA Australia's cost.¹⁴⁷ CPA Australia managed to negotiate out without further cost to the organisation.

The tension and brand damage as a result of the fall-out from these activities creates competitive risk for CPA Australia. Divisional Councils express concern and awareness that members have advised they may transition to competitors and that competitor bodies are actively recruiting as they seek a market opportunity. These risk CPA Australia's position and the historical effort to build its prestige and brand in Australia and internationally.

Preliminary recommendation: Ensure CPA Australia's future brand building activities are centred on CPA Australia and its members

The Review Panel observes that an over-emphasis of brand building activities on a single individual, especially an employee, has inherent risks and limits benefits to CPA Australia. The Review Panel suggests that proper mechanisms are put in place to ensure future marketing and brand building activities are appropriate for the organisation and its members and mitigate any associated risks. These mechanisms should ensure that:

- CPA Australia always be the master or primary brand for all marketing activities and assets
- the CPA Australia brand and brand building activities reflect the diversity of the organisation and its membership
- personalisation of branding is generally avoided, unless centred on a CPA Australia member or members.

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

The sections above illustrate the concerns of members regarding the marketing strategy, its execution and the level of investment. These sections also find that many of CPA Australia's marketing activities have a defensible business basis, have been well executed and are in line with comparable organisations' marketing spend. However, the Review Panel finds that many of the stakeholder concerns stem from a lack of:

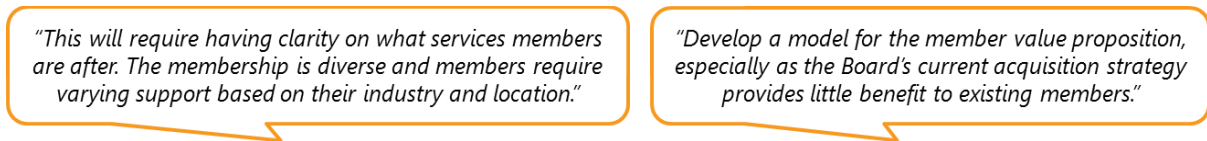
- a clear value proposition to some member segments from some marketing investments
- sufficient member engagement and communication with regard to marketing investments.

CPA Australia needs to better understand the value proposition of marketing to its member segments

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. CPA Australia has more than 160,000 members at different career stages and aspirations, who are spread across global and domestic locations. The benefits of prominent marketing activities are unclear and may not flow to all member groups. Divisional Council feedback outlined on Figure 33 helps to illustrate this.

¹⁴⁷ CPA Australia, *NEC Partnership Report* (12 July 2017).

Figure 33: Extract of Divisional Council submission



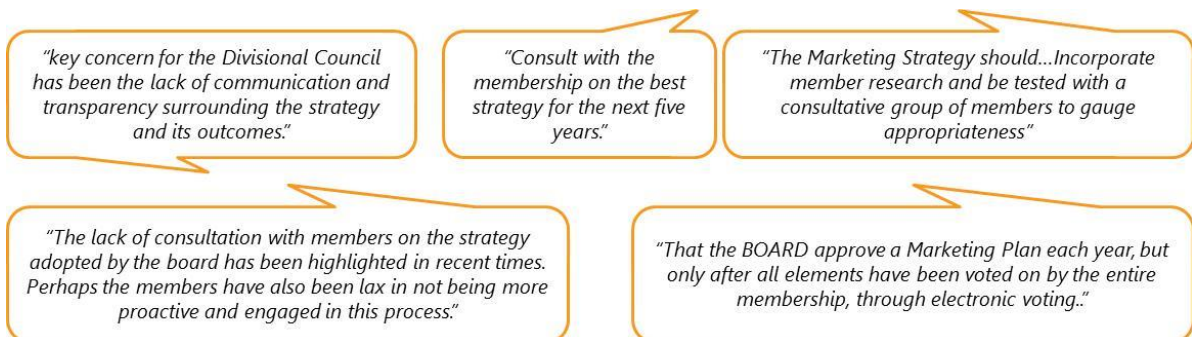
Investments in international brand building campaigns are a relevant example of this. The benefits of international brand building are unclear to many domestic, public practitioner members for whom these benefits are not obvious or visible to their ambitions, needs and client base. This confuses some member groups and contributes to tension and the impression of wasted expenditure.

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. This has led to brand and reputational damage amongst members and the public, as evidenced by various media articles. This can undermine the benefits of these and other marketing investments.

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. It has also contributed to the brand damage and loss of member confidence in the CPA Australia leadership, marketing strategy and level of investment in marketing as a result of these activities. Extracts of submissions that highlight this are outlined in Figure 34.

Figure 34: Extracts of member submissions about communication and engagement with the membership



Members have clearly indicated that an effort will need to be made to rebuild the trust and confidence of members and external stakeholders. There is a view that action will need to be taken in the short term to reinforce the value of being a CPA alongside longer term marketing and brand building campaigns. For example, one Divisional Council submits that CPA Australia should communicate back to members detailed data relating to marketing line-by-line costs of the former CEO centric activities and the costs of termination of these activities upon his departure, with a view to transparency being a mechanism to rebuild trust.

Preliminary recommendations: Develop and assess marketing activities based on an identified value proposition to all member segments

The Review Panel observes that segments of CPA Australia's diverse membership are unable to identify the value to them of specific and prominent marketing activities. The Review Panel suggests that CPA Australia:

- strengthen its understanding of member segments and their needs (as part of strategy development and marketing strategy development)
- assess marketing investments based on a distinct value proposition to each member segment.

Preliminary recommendation: Utilise member engagement mechanisms to actively engage membership in the development of marketing strategies

The Review Panel observes 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). It appears that these mechanisms are not being leveraged to ensure meaningful engagement and understanding of the marketing strategies and investments. Based on these observations, the Review Panel's preliminary recommendations for CPA Australia to:

- 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.
- take appropriate actions to ensure member segments understand the value of marketing investments to their membership.

7.2.5 The organisation structure impacts marketing effectiveness and efficiency

CPA Australia executes its marketing activities through six teams across two portfolios. Marketing activities are led at the General Manager level, reporting to the two COOs who report to the CEO. This structure departs from other comparable organisations and may introduce unnecessary complexity, reduce accountability and transparency and lead to inefficiencies.

Comparable organisations have executive level marketing leadership

It is common for comparable organisations to have executive level investment in marketing and brand portfolios with direct access to the CEO. These structures also ensure a unified marketing structure: one executive has ownership of brand, marketing, content and owned media channels; another executive is responsible for the relationship side of marketing, such as sales and business development. This split model is typically for the brand and marketing portfolio to attract customers over long time horizons and for the business development to convert those customers. It is also justified by the different skill sets and tasks of the teams.

Within the reviewed organisations the following examples exist of senior personnel with marketing skills and capabilities running a major portfolio with a unified set of activities:

- **CPA Canada** – Vice President of Strategic Communications, Brand and Public Affairs and Vice President of External Relations and Business Development
- **AICPA** - Executive Vice President – Marketing & Sales and Executive Vice President, Communications, PR and Brand
- **AMA** – Director of Public Affairs.¹⁴⁸

¹⁴⁸ AMA, *Annual Reports* <<https://ama.com.au/annual-report>>.

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. There are six different teams within two separate COO portfolios with split responsibility for the full range of marketing activities. None of the marketing General Managers have direct CEO access and the strategic-level decisions are made by COOs who have a much broader portfolio than just marketing.

This departs from the structures of comparable professional membership organisations that have been reviewed. Reviewed organisations typically have unified marketing and brand responsibility at the executive level with, at times, separate responsibility for business development.

CPA Australia's structure creates complexity for the organisation

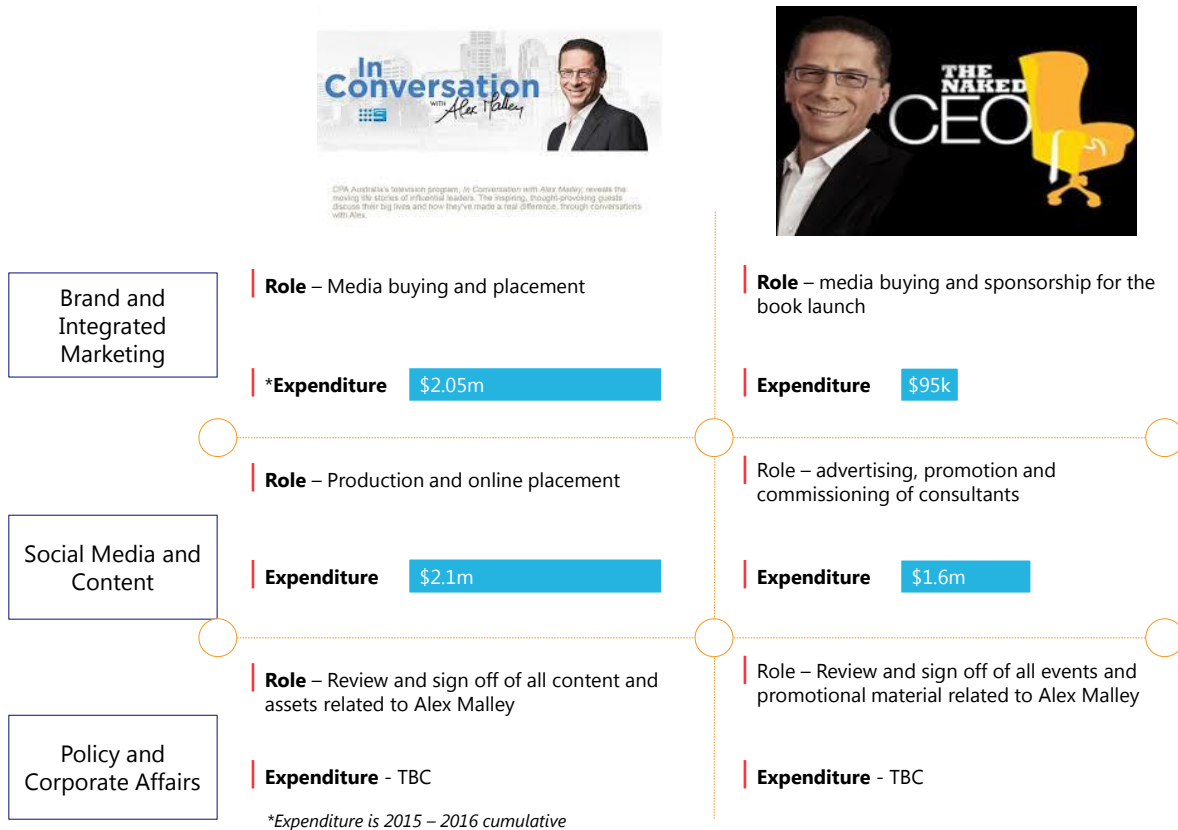
The structure of CPA Australia creates complexity for the organisation, and may hinder its effective delivery of marketing outcomes. The issues with this structure are:

- **No single point of ownership at management level** – CPA Australia lacks a single point of responsibility with visibility into all the marketing activities, brand management, channel management and relationship management at the management level. This prevents one individual with control of all the levers to achieve marketing and strategic objectives other than the CEO, who is responsible for many other strategic and operational activities.
- **Lack of accountability at management level** – CPA Australia lacks a single manager with accountability for execution of the marketing strategy. This prevents the organisation from effective delivery and the ability to manage the risk involved in poor marketing strategies and decisions.
- **Lack of executive presence** – without a CMO or equivalent reporting to the CEO, there is a risk of poor alignment between the organisation's strategy and marketing investment. This generally would require a marketing executive to 'own' the objectives and support the CEO to deliver the strategy.
- **Lack of a unified marketing strategy** – without a single unified structure, there is also no single unified marketing strategy that defines the organisation wide marketing objectives and how the resources and capabilities achieve these. Instead, plans and strategies cut across different teams without an integrated mechanism to achieve a common goal. This can impact effectiveness and efficiency of marketing investments. Divisional Councillors have expressed concern that marketing is not an integrated element of CPA Australia's strategy and is not internally consistent.

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. Discussions with CPA Australia employees have highlighted that the two most contentious marketing investments were closely owned, managed and driven by the former CEO. Employees express that the former CEO utilised the skills, relationships and resources of different teams to execute *In Conversation with Alex Malley* and the Naked CEO without involving General Managers on a strategic level (see Figure 35).

Figure 35: Fragmentation of marketing execution and investment



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. This suggests there would be benefit in reviewing the structure of the organisation’s marketing related business units.

Preliminary recommendation: Consider a review of the organisation structure of marketing related business units to fit within an overall organisational structure

The Review Panel observes that the structure of marketing teams within CPA Australia is fragmented. This may add to complexity and contributes to some of the issues faced in relation to brand building activities. The Review Panel also observes that the structure of marketing teams needs to fit within an overall organisation structure for CPA Australia. The Review Panel’s preliminary recommendation is that CPA Australia consider a review of the organisation structure for CPA Australia’s marketing activities. This structure should take into account:

- fit within an overall CPA Australia structure, if subject to change
- greater unification and integration of marketing activities and channels
- greater convergence with best practice structures
- appropriate checks and balances.

7.3 Concluding remarks

The marketing strategy and execution has caused tension amongst members and stakeholders. This is notwithstanding that many activities have a strategic and commercial rationale and were executed effectively and with an appropriate return.

This tension is largely driven by strategies that were centred on the former CEO, perceptions of conflict of interest and the recent fall out from the events that led to this Review. The tension also appears to be driven by a lack of communication and engagement with members about the strategy and expenditure, and the need to better understand the value proposition for different member segments.

To address this, the Review Panel recommends that CPA Australia continues to invest in strategically aligned marketing activities, but strengthen processes and evaluations to track alignment and achievement against strategic goals. CPA Australia should also continue to invest in innovative marketing activities that differentiate it. However, it should include additional oversight to mitigate the risks involved. The organisation should generally avoid investment in activities that centre on an individual, unless a CPA Australia member or members.

CPA Australia should strengthen the value proposition of marketing activities by identifying member segments and assessing marketing activities against these. This will assist it to ensure members better understand marketing activities and investments. The organisation should utilise existing member engagement mechanisms to achieve this.

CPA Australia should also review the organisation structure of marketing related business units. The future structure should reduce complexity, achieve greater executive level unity and fit within the overall CPA Australia structure.

Preliminary recommendations will be explored further and finalised in the Final Report.

8 Strategy and performance of member services and engagement

This section outlines a preliminary review into the strategy and performance of CPA Australia's member services and engagement. These are core activities for the organisation. It outlines the current state overview, findings, preliminary recommendations and next steps for the Review.

8.1 Current state overview

Member services are the specific offers that CPA Australia delivers to members from its member services portfolio and associated functions. These are the major source of value members derive from their investment in a CPA Australia membership.

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. It also includes the mechanisms that exist to facilitate member engagement. While CPA Australia has a large membership, not all members are active members in terms of utilisation of the organisation's services and a desire to actively engage with it.

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.

CPA Australia delivers education, training, technical support and advocacy

CPA Australia Corporate Plan 2015 – 2019 outlines three strategic goals that member services and engagement have a role in achieving. These are:

- Driving the world's best member engagement and service
- Delivering a world class CPA program and Certification
- Providing access to knowledge.

Member services and engagement are the core activities that support the achievement of these goals. They are also the primary activities that ensure members get value for money from their investment in a CPA Australia membership.

The major member services that CPA Australia provides to more than 160,000 members are summarised below:

- **Education**¹⁴⁹ - CPA Australia delivers the CPA Program to accredit young professional and students. The Program is an educational and professional experience program that develops candidates' technical, business, personal effectiveness and leadership skills. People undertake the CPA Program because it signals an ongoing commitment to professional development as well as demonstrated experience in the accounting profession, thereby enhancing CPA Australia members' job and advancement prospects.

¹⁴⁹ CPA Australia, *Become a CPA* <<https://www.cpaaustralia.com.au/become-a-cpa>>.

- **Training**¹⁵⁰ - members are required to undertake ongoing training to retain the CPA designation. The baseline is for 120 Continuing Professional Development (CPD) hours over three years with at least 20 CPD hours in any year. CPA Australia delivers ongoing training through courses, conferences and events, and executive education. Courses are delivered in-person and online.
- **Technical support**¹⁵¹ - CPA Australia provides technical support to its members. It does this through a dedicated team of member advisers who answer the queries of current and prospective members. In 2016, member advisers answered 170,000 phone enquiries.
- **Advocacy**¹⁵² - CPA Australia is supported by four Centres of Excellence (CoE) in its advocacy role: environment, social and governance; external reporting; retirement savings; and taxation. The CoEs provide thought leadership on issues likely to affect members and the profession and advise CPA Australia in policy development. Advocacy activities (e.g. members representing the organisation at various forums) are considered to be an important activity for CPA Australia. They ensure members' views are heard in the formulation of policies relevant to the profession. The advocacy function includes relationship building and other less visible activities that assist build a profile and connection between CPA Australia and decision makers

Member services are delivered by six teams within the member services portfolio

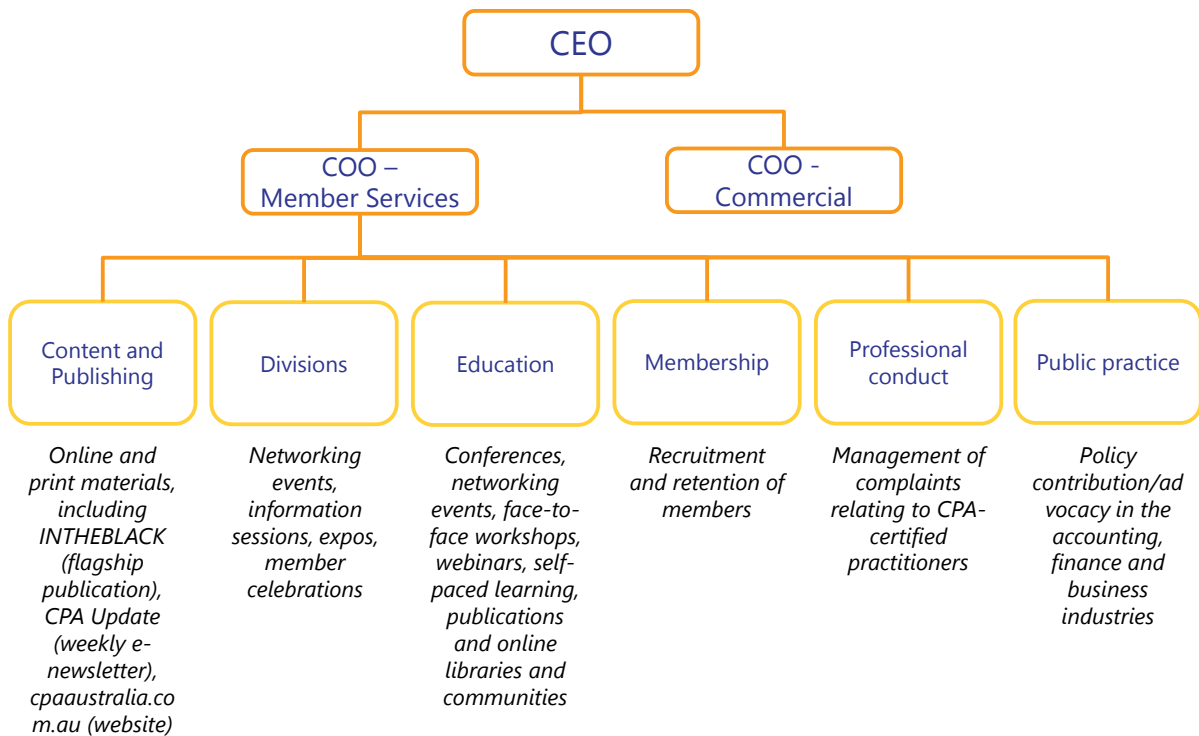
CPA Australia's member services function is led by the COO of member services. There are six teams in the portfolio - detailed in the figure below. These six teams fulfil CPA Australia's aims to provide its members with high quality information and to foster strong and engaging relationships with members.

¹⁵⁰ CPA Australia, *Training and events* <<https://www.cpaaustralia.com.au/training-and-events>>.

¹⁵¹ CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

¹⁵² CPA Australia, *Centres of Excellence* <<https://www.cpaaustralia.com.au/member-services/centres-of-excellence>>.

Figure 36: Organisational structure - Member Services¹⁵³



Volunteers and paid employees are involved in member services and engagement

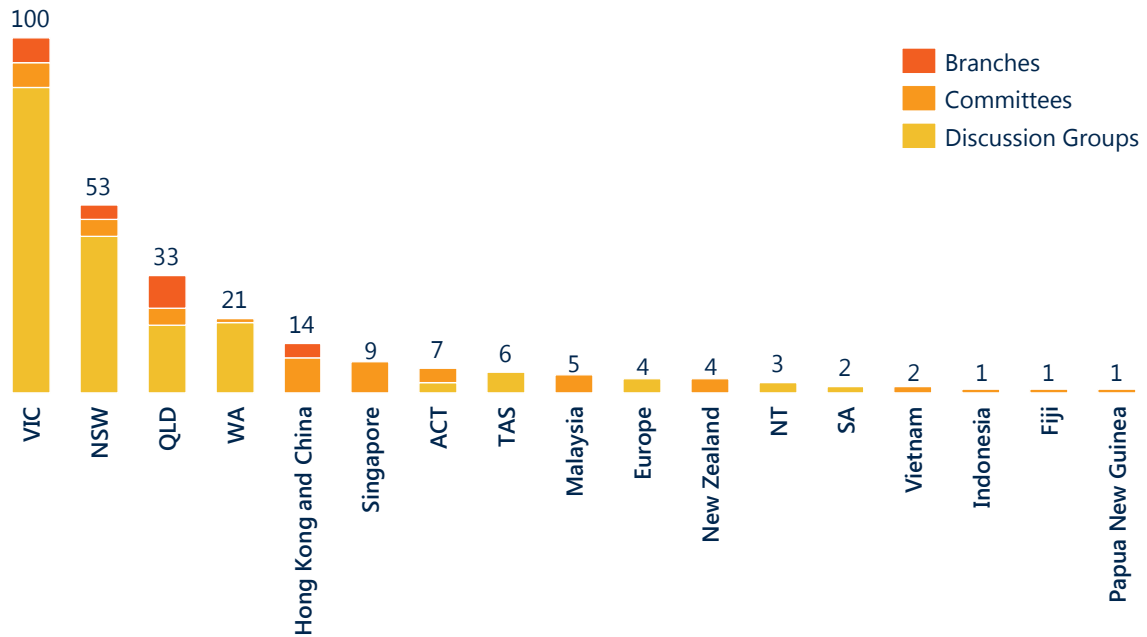
CPA Australia’s member services and engagement activities are delivered by volunteer members and paid staff. There are various member-run councils and committees that serve as a conduit between members, the Board and management. Councils and committees represent the views of members and provide the board and management with feedback on issues impacting members and the profession.

Members are also involved in the organisation of member engagement activities (e.g. networking events, member celebrations) and engaged in various Councils and Committees within the organisation. These span all age groups and employment categories.

In 2017, there are 158 Divisional Councillors, of which 35% are international representatives and 65% are Australian representatives. Members actively participate in more than 200 organised groups. Victoria has the highest rate of participation: 86 discussion groups, seven committees and seven regional branches (Figure 37). These discussion groups are based on location or topics of interest (e.g. Port Macquarie, or forensic accounting). Committees include Public Sector, Public Practice, Not-For-Profit and Young Professionals.

¹⁵³ CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

Figure 37: Number of organised groups in Australia and overseas¹⁵⁴



Member engagement is an ongoing pursuit

Member engagement is an ongoing challenge for CPA Australia, as for all member-based organisations. The organisation has continually implemented initiatives to improve its member engagement and reduce pain points for members. This is an ongoing challenge for all member based organisations and the challenge mounts with membership scale.

Technology provides an engagement opportunity, but also adds to this challenge. It has led to many channels for communication, a fragmented media environment and greater expectations of personalisation and relevance of communication to individual preferences. This is both a challenge and an opportunity for CPA Australia.

Member services are CPA Australia’s largest revenue source

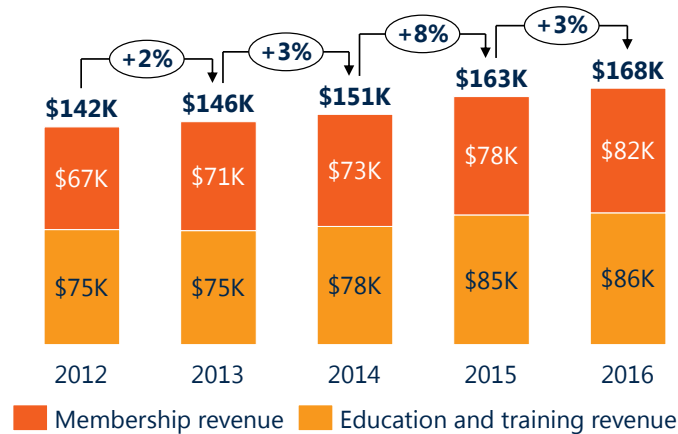
Members generate a large proportion CPA Australia’s revenue¹⁵⁵ (membership fees, and education and training fees).¹⁵⁶ In 2015, revenue from membership fees was over \$77 million, and since 2012 the growth in revenue from membership fees has been 4% per year. Figure 38 outlines the growth in membership revenue since 2012 and revenue from education and training delivered to members.

¹⁵⁴ CPA Australia, *Australian Consolidated Schedule of Discussion Groups, Committees and Branches; CPA Australia, International Consolidated Schedule of Discussion Groups, Committees and Branches.*

¹⁵⁵ Average of proportions from 2012 to 2015.

¹⁵⁶ CPA Australia, Annual reports (2011-16) <<https://www.cpaaustralia.com.au/about-us/our-organisation>>.

Figure 38: Member revenue, 2012-2016¹⁵⁷



Expenditure on these services is a large component of CPA Australia’s operational expenditure. The expenditure for membership-related business units accounted for in 2016 was \$103 million:¹⁵⁸ this represents approximately 60% of CPA Australia’s annual expenditure.¹⁵⁹ Membership-related business segments are: member support and corporate services (27% of total expenditure in 2016), education (14%) and membership and member value (19%).

8.2 Findings

The Review Panel has identified the following preliminary findings that apply to member engagement:

- 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 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.

Each of these is discussed below.

8.2.1 Councils have become more constrained in engaging with members

Stakeholder submissions suggest the role of the Divisional Councils has diminished

An expectation was expressed through submissions and consultations that Divisional Councils be the drivers and champions of CPA Australia’s member engagement strategy. Divisional Councils are considered by members as the primary engagement point. Figure 39 below outlines member submissions that illustrate the contention that Divisions should be strengthened and be the main way members engage with CPA Australia.

¹⁵⁷ Ibid.

¹⁵⁸ CPA Australia, *membership P&L*.

¹⁵⁹ CPA Australia, *Annual reports (2011-16)* <<https://www.cpaaustralia.com.au/about-us/our-organisation>>; total expenditure in 2016 was \$172,618.

Figure 39: Extracts of member submissions regarding Divisional Councils

"Somehow divisions should be positioned as critical to the organisation's success because it's there that the engagement actually occurs."

"The fact that Divisions have not been used to tap into the knowledge and skills of the membership at an optimum level has been to the detriment of authentic member engagement."

Members suggest there has been gradual disempowerment of Divisions and that CPA Australia's approach to member engagement is becoming increasingly centralised. Illustrating this, head office provides Divisions with a fixed list of member engagement activities. Divisional Councils and General Managers express that Divisional Councils have had diminishing power, despite being the only directly elected membership group within CPA Australia. Divisional Councils express that they have limited resources, ability to communicate with members and involvement in the policy-making process.

Members also report that this sense of disempowerment extends more widely across member-organised groups that are intended to advise the Board and management on policy decisions. Figure 40 outlines this feedback from Divisional Councils and General Managers.

Figure 40: Feedback from Divisional Councils and General Managers

"There has been a lack of respect for Divisional Councils even though they are the only member-elected group. Their election means nothing after."

"Advisory committees don't have any teeth – don't have any influence whatsoever."

There has been a trend to centralisation of member engagement by CPA Australia in pursuit of the more efficient delivery of services, there is a balance to be struck so that Divisions have a reasonable capacity to deliver some local engagement activities.

Divisional Councils also feel greater resources could help them engage more effectively

Divisional Councils feel constrained in their capacity to deliver wider-reaching and more innovative member engagement activities. This is due to resource constraints. Divisional Councils report that they are only able to run large events with the assistance of external sponsors. Some Councillors considered this to be a poor reflection on the organisation given its large marketing budget. Extracts of submissions that express dissatisfaction over the under-resourcing of Divisional Councils are outlined in Figure 41.

Figure 41: Extracts of member submissions

"Divisional Councils can only do a small range of activities given their resources. There is limited scope and budget."

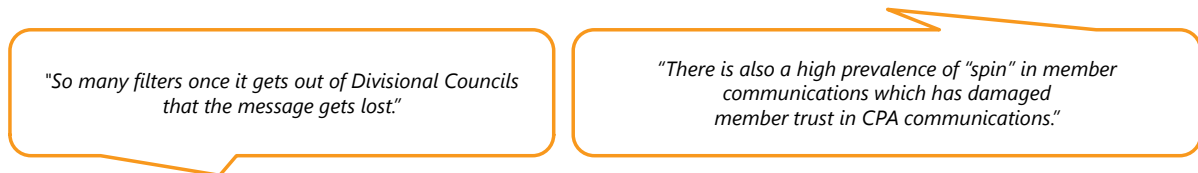
"I have little to offer beyond saying that a lot of support for active members has been withdrawn in recent years and the parsimonious attitude has caused resentment, particularly in branches, but also in Committees and Councils..."

Divisional Councils feel they should have greater control of member communications

Divisional Councils also express that they have limited freedom to communicate directly with members. Some Divisional Councillors express that communications to members requires a long process of approvals by head office, and that it is often challenging for Divisions to access members' contact details. While Divisional Councils recognised the importance of a centralised member communication strategy,

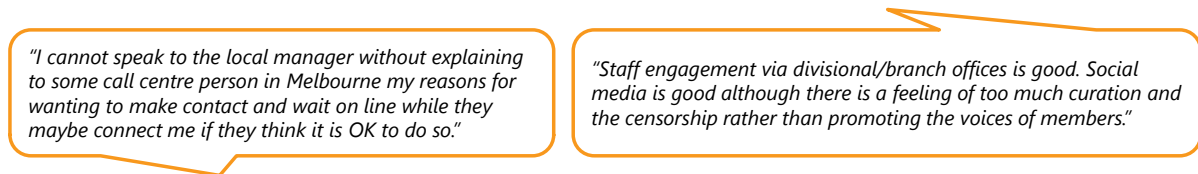
they also believed that this hampered their role as members' primary engagement point. Extracts related to Division Councils' lack of control over member communications are outlined in Figure 42.

Figure 42: Extracts from member submissions related to Councils' lack of control over member communications



Member submissions reveal that members also feel the impact of the centralised communication strategy. Members preferred to engage with Divisional Councillors directly, and believed that they would truly represent the view of members. Member dissatisfaction related to perceived barriers to the two-way communication between members and Divisional Councils. Figure 43 outlines some member submissions that express dissatisfaction over the current state of member communication. Direct communication from Divisions with members will enable two-way member engagement. This will provide a channel for members to provide input into the strategic direction and policies of CPA Australia.

Figure 43: Extracts from member submissions



Preliminary recommendation: Empower Divisions and Divisional Councils to better engage with members

The Review Panel recommends that CPA Australia strengthen the role of the Divisions and Divisional Councils and their capacity to engage with members. The Review Panel understands that the Board is already considering initiatives to enhance the role of Divisional Councils and any further changes would need to complement these. This will improve the quality and relevance of events, improve communication and lead to more meaningful member engagement.

Specific options that will be considered in the Final Report include:

- formally position Divisional Councils as key member engagement mechanisms for CPA Australia and its membership
- increase the remit of Divisional Councils to engage with members
- support the Divisions and Divisional Councils to engage effectively through additional resourcing and access to membership communication channels.

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

Member engagement with organisational deliberations (e.g. corporate strategy) is facilitated through Divisional Councils, Representative Councils and other informal mechanisms. Feedback from members and stakeholders suggests that these mechanisms could be improved to allow members to have more input into organisational deliberations that affect members.

There are formal mechanisms for Representative and 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. In support of the Board, the Divisional Councils are mandated to contribute ideas towards CPA Australia's strategy and direction for the benefit of its members.¹⁶⁰

There are currently three ways the Divisional Councils can feed into CPA Australia's strategy and direction through the Board.

1. Divisional Councils are involved in CPA Australia's review and redevelopment. The CPA Australia Corporate Plan is reviewed and redeveloped every three years. As part of this process, the Board asks Divisional Councils to identify issues important to members and contribute ideas toward the new plan in preparation for the formal strategy.¹⁶¹
2. The Board may ask Divisional Councillors to lead task forces as part of formulating CPA Australia submissions to government and regulatory bodies.¹⁶²
3. The Board may ask Councillors to form conference task forces, responsible for the identification of key topics and speakers.¹⁶³

CPA Australia's Constitution limits the Representative Council's ability to provide advice to the Board on member issues. While the Representative Council can provide guidance to the Board on member issues and can consider any issues concerning CPA Australia's affairs,¹⁶⁴ these powers are only triggered in specific circumstances. Namely, the Representative Council may only provide guidance to the Board on member issues where requested by the Board and may only consider issues concerning CPA Australia's affairs where 50% of Representative Councillors endorse the motion.¹⁶⁵

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

The CA ANZ Council has a mandate to represent the interests of the membership as a whole.¹⁶⁶ As part of this remit, it has the power to provide input to the Board on key policy issues that will significantly impact members.¹⁶⁷ This power does not have any pre-conditions, allowing a certain degree of freedom for CA ANZ Council to provide input to CA ANZ's Board.

AICD's Divisional Councils have a mandate to provide advice to the Board, Managing Director and CEO on policy matters, membership matters, and AICD's strategy.¹⁶⁸ In a similar vein to CA ANZ, this power is unfettered.

Informal mechanisms were put in place to facilitate member feedback

CPA Australia has in place a number of mechanisms to allow members to raise issues and communicate with executive management, particularly in respect to CPA Australia's strategy. These included a direct

¹⁶⁰ Divisional Councils' functions are not set out in CPA Australia's Constitution. Content relating to Divisional Councils' functions is taken from CPA Australia, Divisional and Branch Councils <<https://www.cpaaustralia.com.au/about-us/our-organisation/councils-and-committees/divisional-and-branch-councils>>.

¹⁶¹ Ibid.

¹⁶² Ibid.

¹⁶³ Ibid.

¹⁶⁴ CPA Australia, *Constitution of CPA Australia Ltd*, Art. 61(a).

¹⁶⁵ CPA Australia, *Constitution of CPA Australia Ltd*, Art. 61(a).

¹⁶⁶ The Institute of Chartered Accountants in Australia and New Zealand, *Supplemental Royal Charter*, Art. 13B.

¹⁶⁷ The Institute of Chartered Accountants in Australia and New Zealand, *Supplemental Royal Charter*, Art. 13B.

¹⁶⁸ Australian Institute of Company Directors, *Constitution*, Art. 9.3(a); Australian Institute of Company Directors, *Division Council Charter*.

email address to the CEO, regular meetings with Divisional Presidents and Councils (including an annual strategy day in February), and attendance at Congress meetings.

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

Member feedback received with respect to these mechanisms has been mixed and, sometimes, contradictory. The Review Panel notes that this is likely because, while these mechanisms provide an avenue for formal and informal communication, members do not necessarily feel that they have influence in the strategy development process.

Specific concerns raised by members include:

- the lack of pathway for Divisional Councils to relay information obtained from interactions with members to the Board on a regular basis
- a greater number of opportunities and triggers for the Representative Council to contribute member feedback to the Board on strategic issues
- a greater sense of visibility and proximity between Board members and CPA Australia's members
- consideration of the effectiveness of existing engagement channels.

Preliminary recommendation: Improve member ability to meaningfully engage with CPA Australia's directions

CPA Australia needs to improve the mechanisms for members to meaningfully engage and influence the strategy and direction of the organisation and feel that their views are being heard and acted upon. The Final Report will explore specific options to achieve this. Specific options that will be considered include:

- changes to the role of Councils with regard to Board deliberations and strategy development
- additional opportunities for the Board and Divisional Presidents or Councils to meet to deliberate on member feedback and strategic and organisational issues
- removing or replacing channels for feedback that may be ineffective.

8.2.3 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. In this context, some members expressed the view that they expect more access to professional development resources without further charge above the price of membership.

The cost of professional development and training is also perceived as being too high. This is especially in relation to online content given the resources saved. High attendance costs were seen as a mechanism that contributed to the exclusivity of some events among fee-paying members. Figure 44 outlines the member submissions that highlight a misalignment between services and membership costs.

Figure 44: Extracts from member submissions regarding value of membership

"Members do not get anywhere near value for money for their annual subscription."

"[The] cost of professional training is excessive...I feel that I should be able to get my annual CPD hours from training provided at no or very low cost...Webinars are not expensive to do and should be free to all members."

In light of this feedback, there would be benefit in CPA Australia considering how it communicates the value of membership to members. The communication should be clear. The pricing structure for membership and services should balance price integrity with appropriate access for the broad range of members.

Preliminary Recommendation: Periodically review costs of member services and how membership value is reported

The Review Panel's preliminary recommendation is that CPA Australia periodically reviews the costs to members and how the value of membership is communicated to members (e.g. services that are provided for free). This may involve:

- benchmarking against comparable member organisations
- price point and pricing models for specific member services
- availability of professional development opportunities in exchange for membership costs
- mechanisms to report member value to members on a personal level.

8.2.4 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. A Notice of AGM was subsequently published on 24 February 2017. Around 5% of CPA Australia's members reside in Singapore.

The AGM aimed to demonstrate CPA Australia's commitment to the Asia-Pacific region

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. CPA Australia represents more than 160,000 members and business professionals across 118 countries. The organisations overseas operations covers offices in China (including Hong Kong SAR, Macau and Taiwan), Fiji, Indonesia, Malaysia, New Zealand, Papua New Guinea, Singapore, the United Kingdom and Vietnam. Around 30% of CPA Australia's members reside outside of Australia. In the past three years, CPA Australia celebrated a number of milestones in the Asia-Pacific region, where it has more than 37,000 members. 2014 marked 60 years of operations in Singapore, its first registered office outside Australia. In 2016, the organisation celebrated a similar milestone in Hong Kong.

Members were concerned about the reasonableness of the AGM's location

The calling and conduct of meetings of members is governed by CPA Australia's Constitution and relevant provisions of the Corporations Act. CPA Australia's Constitution provides avenues for both the Board and members to call and hold a meeting of members.¹⁶⁹ The Board may, by resolution, call a meeting of members.¹⁷⁰ Where a Board resolution calls for a meeting of members, the Constitution allows for multiple venues and technology to be used to give meeting members a reasonable opportunity to participate.¹⁷¹

¹⁶⁹ Although the Constitution does not say so expressly, the Review takes the Constitution's use of the term 'meeting' to mean a general meeting. General meetings include any meetings of members, including annual general meetings.

¹⁷⁰ CPA Australia, *Constitution of CPA Australia Ltd*, Art. 21(a).

¹⁷¹ CPA Australia, *Constitution of CPA Australia Ltd*, Art. 21(a).

The Corporations Act Part 2G.2 – Part 2G.4 sets out provisions relating to general meetings, including AGMs. The Corporations Act stipulates that a meeting of a company’s members must be held at a reasonable time and place.¹⁷² This is a non-replaceable rule.

The Review Panel observes some members questioned the reasonableness of the AGM’s location and ability to participate. The AGM was live streamed at 7.30pm Australian Eastern Standard Time and was provided with remote technology that was an improvement on previous technologies available to members. The live streaming technology did not allow real-time participation. Instead, members were asked to submit questions in advance. There were concerns the live streaming technology prevented real-time participation.

Preliminary Recommendation: Make Annual General Meetings accessible to all members

It is the Review Panel’s view that CPA Australia implements processes and policies to make AGMs reasonably accessible to all of its members. Specific items to implement are:

- CPA Australia should provide sufficient lead time by announcing the timing of the next AGMs 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.

8.2.5 Feedback to the review panel indicates that on occasions, member interactions with staff and members have not been respectful and have been damaging.

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

It is 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. It is increasingly common in member organisations for such policies to be adopted.

Preliminary recommendation: CPA Australia institute a code for appropriate professional behaviour by members

It is the Review Panel’s preliminary recommendation that CPA Australia articulate a policy that sets a minimum standard for appropriate professional behaviour in relationship to the organisation.

¹⁷² *Corporations Act 2001* (Cth), s 249R.

8.3 Concluding remarks

There is scope for CPA Australia to revise its member engagement strategy to strengthen collaboration and improve engagement between members, member groups and the Board. The Review Panel's preliminary recommendations in respect to member services and engagement are:

- empower Divisional Councils to better engage with members by leveraging Divisions' knowledge and proximity to members to shape the future direction of the organisation
- improve the channels that allow members and member groups to contribute to strategy development
- conduct periodic reviews of costs of member services and look for ways to better communicate the value of a CPA membership to members
- implement processes and policies to make AGMs reasonably accessible to all of its members
- CPA Australia consider instituting a code of conduct for member behaviour.

These preliminary recommendations will be explored further and finalised in the Final Report.

9 Strategy and performance of CPA Advice

This chapter details the strategy and performance of CPA Advice. It outlines the current state overview, findings, preliminary recommendations and next steps for the Review.

9.1 Current state overview

CPA Advice is a wholly-owned subsidiary of CPA Australia and was established with the primary purpose to acquire and operate an Australian Financial Services Licence (AFSL) and an Australian Credit Licence (ACL) so that members may offer financial planning advice to the community. CPA Advice was granted an AFSL and an ACL on 15 April 2016. The intent was that CPA Advice would be built on an ethos of integrity and transparency, focussing on providing quality independent financial advice to Australian consumers on a fee-for-service base with advisers receiving no commissions or asset-based fees.

As a financial services business, CPA Advice offers a range of tailored licencing solutions to enable Authorised Representatives of the company to provide high quality, independent advice to their clients.

The intention to establish a financial services business was first considered by the CPA Australia Board in 2009 but was not approved at the time. In July 2013, the Future of Financial Advice (FOFA) reform package was introduced, 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 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.

The establishment of CPA Advice was in direct response to the repeal of the accountants' exemption. It was intended to provide members impacted by the removal of the accountants' exemption 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 Advice is to charge members a fee to act as CPA Advice authorised representatives. An authorised representative is able to provide fee-for-service advice in regard 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 Advice staff. In addition, CPA Advice also provides business support tools, software, templates, professional development and, where applicable, product research.

Members have raised concerns about the rationale for the establishment of CPA Advice, its performance – including financial performance – and the impact on CPA Australia's Professional Standards Scheme (PSS) insurance for public practitioners.

9.2 Findings

In its investigation of CPA Advice, the Review Panel has the following findings to highlight in the Preliminary Report:

- the business case for establishing CPA Advice articulates a strategic rationale
- performance of CPA Advice has been below expectations
- concerns were raised in relation to the Professional Standards Scheme with regard to the establishment of CPA Advice.

The examination of remuneration for CPA Advice Board Directors and executives has already been discussed in Chapter 6.

9.2.1 The business case for establishing CPA Advice articulates a strategic rationale

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

- CPA Australia 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 ACL. Providing this platform was in direct response to the removal of the accountants' exemption from 1 July 2016.
- A well-recognised and trusted brand name as an alternative to the financial planning arms of the retail and investment banks. The banking industry had experienced significant negative media attention in regard to the quality of their financial planning businesses.
- CPA Australia with an additional future revenue stream to better provide for members services in the long term.¹⁷³

The business case outlines 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. In this context, as accountants continued to remain a source of trusted advice for many, it was considered to be in the public interest for CPA Australia to commit to introducing an independent professional alternative for advisers which would not only benefit the profession but also the Australian public. The establishment of CPA Advice was not considered to be in competition to members but was seen as providing a viable alternative to obtaining an AFSL in their own right.

The business case and Board papers outline that CPA Advice intended to be:

- an extension of a long-term, ongoing commitment to provide support and resources for members who provide financial planning and wealth advice
- a best practice platform for members that was in the best interest of members, CPA Australia and the public
- a platform that was free from the conflict of product owners

¹⁷³ CPA Australia, *Board Paper*; CPA Australia, *AFSL Business Plan* (27 April 2015).

- a low-cost platform for members with an aim of providing a lower price per Statement of Advice compared to the broader market
- a long-term strategic initiative for CPA Australia.¹⁷⁴

The business case identified a number of key risks, including: professional indemnity insurance risks; lack of member engagement with the offer; inappropriately trained or unqualified advisers; and adviser ability to profit once authorised.

The business case also identified that it would be difficult for CPA Australia to exit from the new entity if desired, given that it will carry the CPA Australia branding. Advisers would have signed-on based on the independence of the offer and any likely buyers would be vertically integrated and not independent.

From the CPA Advice business case, the Review Panel concludes there was significant intent from CPA Australia and the CPA Board to provide a service that was in the best interest of CPA Australia, CPA members and the public. On the material available to the Review Panel, there was no evidence to suggest that there were other motives for the establishment of CPA Advice.

9.2.2 Performance of CPA Advice has been below expectation

Uptake of CPA Advice has fallen short of business case forecasts

The performance of CPA Advice has suffered from a number of issues that have impacted uptake by members. 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 Advice, CPA Australia received around 600 expressions of interest from members, however very few of these were converted to authorised representatives.¹⁷⁵ As at June 2017, there were 27 authorised representatives under CPA Advice.¹⁷⁶ It is the Review Panel's opinion that this conversion rate is the result of a number of issues, not all of which are within the control of CPA Advice.

Part of the explanation behind CPA Australia's challenge to convert expressions of interest into authorised representatives may have been its positioning to members and alignment to their needs. Specifically:

- CPA Advice may have been introduced too late. The Review Panel received feedback that "The majority of members had already decided in their minds what course of action they would take before CPA Advice was introduced." The late offer and lack of preparedness may have impacted the number of members wishing to become authorised representatives of CPA Advice.
- CPA Advice's licensing model had a higher cost, relative to other providers. The launch price for CPA Advice's 'basic' licence, which restored the right for recognised accountants to give broad superannuation advice, was \$695 a month. A licence with equivalent effect, offered by the National Tax and Accountants Association, started at \$250 per month. The Review understands this is far more economical than applying for and maintaining an AFSL. As one member stated "[T]he offer was costed in a manner which did not attract the membership." The Review Panel

¹⁷⁴ Ibid.

¹⁷⁵ Alice Uribe, 'CPA Advice inundated with enquiries' in *Independent Financial Advisor* (12 June 2015) <<https://www.ifa.com.au/news/14641-cpa-advice-inundated-with-inquiries>>.

¹⁷⁶ CPA Advice, CPA Australia, CPA Advice *Summary of Licence Fee Revenue since inception*

notes that the Board of CPA Advice has already implemented pricing changes to make the offer more competitive.

- The trade-offs with respect to CPA Advice’s prohibition on commissions were not adequately understood by members. Members contemplating operating under CPA Advice seem to be unclear as to the trade-offs between not receiving commissions and being able to brand relevant financial advice as ‘independent’, ‘impartial’ and ‘unbiased’. One member wrote “[T]he biggest reason for no uptake is [advisors] are not allowed to take commissions”. The absence of commissions, however, is a core part of CPA Advice’s value proposition around independence. CPA Advice was launched, in part, in response to a perceived lack of public trust in the financial planning profession. Accordingly, CPA Advice operates in compliance with the Corporation Act’s independence provisions and professional standards for members engaged in the provision of quality and ethical financial services.¹⁷⁷ Compliance with these terms allows CPA Australia’s authorised representatives to describe themselves as ‘independent’, ‘impartial’ and ‘unbiased’. The Corporations Act outlaws the use of such terms where advisers receive commissions or other financial incentives that might be expected to influence advice.
- CPA Advice’s focus was on those who needed the benefit of an AFSL, rather than those members who held their own AFSL or acted as an Authorised Representative under another entity’s AFSL. There are statements to suggest around 15 per cent of CPA Australia’s members provide financial advice under a number of licenses.¹⁷⁸ The Review Panel heard that these members were not effectively communicated with.

In addition, some stakeholders identified that despite the early warning, many members who expressed interest in becoming an authorised representative did not have the requisite educational requirements and found the need to undertake additional training challenging on top of their already busy workload. As CPA Advice had set a high standard of education to become an authorised representative, many members were not eligible until they undertook this further training.

Further, it has also been suggested that the negative press surrounding CPA Australia and the uncertainty around CPA Advice’s future has had, and continues to have, a significant impact on member uptake and as a consequence its financial performance.

Compounding the failure to create a sustainable conversion funnel and positioning among its membership, CPA Australia did not take steps to evaluate elements of CPA Advice’s performance early enough. CPA Advice attempted to address some member concerns around cost in May 2017, when it reduced fees for its licencing options. However, from the documents and information the Review Panel has been provided, little action was taken outside of this to assess and address the drivers of CPA Advice’s underperformance. More recently, and in response to the trend of low take up, costs have been reduced, primarily through a reduction in salaries with cuts to staffing.

Below expected uptake has impacted financial performance

Please note that the Review Panel has had the opportunity to appraise itself of CPA Advice’s business case and financial statements. This information was provided commercial-in-confidence, remains sensitive and cannot be reproduced in the Preliminary Report.

A significant criticism from members and stakeholders has been the financial performance of CPA Advice. The current financial performance of CPA Advice has been poor relative to the business case in

¹⁷⁷ Corporations Act 2001 (Cth), s 923A; APES 230 Financial Planning Services

¹⁷⁸ Alice Uribe, ‘CPA Advice inundated with enquiries’ in *Independent Financial Advisor* (12 June 2015) <<https://www.ifa.com.au/news/14641-cpa-advice-inundated-with-inquiries>>.

regard to revenue, and substantial changes are likely needed to make CPA Advice viable in the medium to long term.

The ability of CPA Advice to be profitable in the medium to long term is heavily reliant on revenue growth from increases in the number of Authorised Representatives, with a high proportion of CPA Advice's costs being fixed (as oppose to variable). Revenue generated to date by CPA Advice is significantly below the projections articulated in the business case. This can be attributed to a much smaller number of Authorised Representatives signing up to the CPA Advice service than expected. As of June 2017, there were 27 Authorised representatives signed up to the platform,¹⁷⁹ which compares unfavourably to the number of Authorised Representatives projected by the business case by the end of 2017.

However, through cost reductions CPA Advice has been able to reduce losses to less than those projected in the business case. In the financial year ending 31 December 2016, CPA Advice had a loss of \$5.7 million for the year and a combined trading loss of \$7.4 million since inception.¹⁸⁰ This compares favourably to business case projections.

Preliminary recommendation: carry out a comprehensive post-implementation evaluation of CPA Advice

The Review Panel's preliminary recommendation is that the CPA Australia undertake a comprehensive post implementation review of CPA Advice. The post implementation review should reconsider the strategy in-light of the low uptake, and look at the factors that have contributed to low uptake and how financial performance can be improved. As discussed, the Review Panel notes that the Board of CPA Advice has already implemented pricing changes to make the offering more competitive.

The Review Panel recommends the CPA Australia Board investigates options for CPA Advice as a matter of priority to ensure any future losses from the business are minimised.

9.2.3 Concerns were raised in relation to the Professional Standards Scheme with regard to the establishment of CPA Advice

A contentious issue in regard to the establishment of CPA Advice was the impact on CPA Australia's Professional Standards Scheme (PSS) insurance for public practitioners.

Each Professional Standards Scheme 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 will expire in October 2017, following an application for extension in October 2016.¹⁸¹ In January 2017, CPA Australia lodged an application for a new PSS with the Professional Standards Councils (PSC).¹⁸²

In March 2017, the PSC wrote to CPA Australia's Board to raise concerns in regard 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 Advice.¹⁸³ 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 will expire in

¹⁷⁹ CPA Australia, *CPA Advice Summary of Licence Fee Revenue since inception*.

¹⁸⁰ CPA Australia, Annual Report 2016 (2016) <<http://cpaaustraliaannualreport.realviewdigital.com/?iid=151708#folio=1>>.

¹⁸¹ CPA Australia, memo.

¹⁸² CPA Australia, *Limited Liability Scheme Guidance Note* (June 2017).

¹⁸³ Letter from Brian Rayment QC, Chair Professional Standards Council to Tyrone Carlin, CPA Australia Chairman (17 March 2017)

October.¹⁸⁴ The PSC further wrote to CPA Australia in June 2017 stating the governance finding of the Independent Review (this Review) will be important to their consideration of CPA Australia's PSC scheme application.¹⁸⁵

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 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).¹⁸⁶

PSSs cap the civil liability or damages of member of professional bodies

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.¹⁸⁷ In the case of CPA Australia, schemes are operational in all states except Tasmania. While members of the PSS still need to have appropriate level of professional indemnity insurance, the PSS provide an additional layer of security for a practice's risk management framework and insulate members from paying what would otherwise be a higher insurance premium.¹⁸⁸

CPA Australia's bridging policy will cover public practitioner members

In August 2017, CPA Australia announced a group member's 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".¹⁸⁹

9.3 Concluding remarks

The performance of CPA Advice has been a significant focus of criticism from members. Information provided to the Review Panel shows that there have been considerable losses, although less than projected in the business case. A post-implementation review of CPA Advice would therefore be a timely and appropriate action to further investigate the factors that have contributed to low uptake, consider whether and how financial performance can be improved going forward, and review risks in relation to the establishment of CPA Advice and how effectively they have been mitigated.

The Review Panel understands that the initial concerns raised in relation to the impact on the PSS as a consequence of CPA Advice have been address in the interim and that CPA Australia is continuing to work on its insurance coverage for Australian public practitioners through the bridging policy, and with PSC to finalise its application for a new insurance scheme. This application will be informed by the findings of this review. The Review Panel will provide a further update on CPA Advice in its Final Report, including final recommendations and any other matters considered significant by members.

¹⁸⁴ CPA Australia, *Limited Liability Scheme Guidance Note* (June 2017).

¹⁸⁵ Letter from Deen Sanders, CEO Professional Standards Councils to Jim Dickson, CPA Australia Chairman (19 June 2017)

¹⁸⁶ Letter from Deen Sanders, CEO Professional Standards Councils to Adam Awty, CPA Australia interim CEO (3 August 2017)

¹⁸⁷ PSC, *Professional Standards Schemes* <<https://www.psc.gov.au/professional-standards-schemes/what-are-schemes>>.

¹⁸⁸ CPA Australia, *Limited Liability Scheme Guidance Note* (June 2017).

¹⁸⁹ Announcement from the Board of CPA Australia, email, 4 August 2017

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

Table 15 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 15: List of stakeholder meetings

Stakeholder list
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 Board (including CPA Advice Board Director)
CPA Acting CEO
CPA COO
CPA Executive General Manager, Brand
CPA General Council
CPA Australian State and Territory General Managers
CPA GM Victoria
CPA General Manager of Social Media and Content
CPA Deputy CFO
Individual members & Other Stakeholders
Members (anonymity requested)
Australian Securities and Investments Commission
'Board Spill Group'
IFAC
Past Presidents Group

Stakeholder list

Professional Standards Australia

Tax Practitioners Board

Appendix C Survey response analysis

There were more than 1,770 submission recorded through the web survey from some 41 countries. Table 16 provides a summary of the number of responses the secretariat reviewed and incorporated into the analysis for each segment of the report.

Table 16: Survey response figures

Survey segment	Responses received and analysed related to this segment
Governance	446
Remuneration	417
Strategy & marketing	400
member services and engagement	320
CPA Advice	317
Other comments	365