

# NATIONS GLOBAL COMPACT

## COMMUNICATION ON ENGAGEMENT 2018

CPA Australia's principal public document addressing matters pertaining either directly or generally to the UN Global Compact Principles is its 2017 Integrated Report, the full text of which can be found at:

<https://www.cpaaustralia.com.au/about-us/our-organisation>

It is emphasised at the outset that this Communication on Engagement addresses both CPA Australia's operational and governance responses, but more particularly its public interest objective of promoting ethical and transformational behaviours amongst its professional accounting membership and the wider business community.

The following Communications on Engagement is drawn either directly from the 2017 Integrated Report or other publicly available sources.

### HUMAN RIGHTS

**Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and**

**Principle 2: make sure that they are not complicit in human rights abuses.**

As a membership service organisation CPA Australia's most significant response to the challenges of promoting and protecting Human Rights is through developing sustainable and risk assessed relationships within its supply chain. These policies, practices and processes are discussed in detail in the Additional GRI Information supplementary to the 2017 Integrated Report and can be accessed at [www.cpaaustralia.com.au/informationgri](http://www.cpaaustralia.com.au/informationgri). There it is stated:

Sustainability considerations that are factored into our tendering evaluation process include: sustainability supply risk, reputational risk, labour standards within our suppliers' networks, local supply, diversity, waste management and carbon footprint impact.

In 2017, the majority of our direct supply chain expenditure was in Australia at an approximate cost of \$79 million across a supply base of about 1550 suppliers. Our top 10 suppliers were responsible for approximately 50 per cent of total supply chain expenditure, primarily for the delivery of services associated with the CPA Program and marketing.

We utilised the supply chain analysis performed in early 2017 for the 2016 annual report to also feed into this report as we have not experienced significant changes in our supply chain partners. That analysis included CPA Australia's top 12 suppliers in terms of expenditure. Conducted by an independent consultant, analysis includes a review of publicly available information, supplier surveys and one-on-one interviews with top suppliers representing branding and advertising, educational services, media planning and buying, property management and publishing. Through this analysis the following information was collated:

- Nature of products and services supplied, spend and location
- Contractual terms and tender evaluation results
- Economic, environmental, social and governance issues

There is considered to be no material risk to CPA Australia from doing business with the suppliers analysed.

CPA Australia proposed to continue with this analysis in 2018, cognisant though of the size and nature of the business precludes an exhaustive assessment of impacts across the entire supply chain.

CPA Australia also acknowledges and is supportive of the passing of the Commonwealth Modern Slavery Bill 2018, the revenue turnover threshold of which, it is expected, will require CPA Australia from 2020 to prepare a modern slavery in supply chains statement.

## **LABOUR**

**Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right of collective bargaining;**

**Principle 4: the elimination of all forms of forced and compulsory labour;**

**Principle 5: the effective abolition of child labour;**

The following Communication on Engagement also pertains to CPA Australia's broader endeavours in driving accountants' and business response to UN Global Compact Principle 2.

As noted above, 2018 saw the successful passing into Australian law, a modern slavery in supply chains disclosure regime. The antecedence of this development date back to a series of public consultations in 2017, conducted respectively by the Commonwealth Parliamentary Joint Standing Committee on Foreign Affairs, Defence and Trade and the Commonwealth Attorney-

General's Department. CPA Australia's comprehensive submissions to each inquiry can be found on CPA Australia's website in which strong support for the policy intent is expressed:

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/esg/cpa-australia-inquiry-modern-slavery-act-australia.pdf?la=en>

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/esg/modern-slavery-in-supply-chains-reporting-requirements.pdf?la=en>

These consultations culminated in the development in May 2018 of the draft bill with CPA Australia working as part of a select group of invitees engaged to review the bill prior to its wider public consultations.

### **Principle 6: the elimination of discrimination in respect of employment and occupation.**

CPA Australia's 2017 Integrated Report under "Our People – Diversity and inclusion" notes:

CPA Australia employs 527 people (full time, part time and casual) from a diverse range of nationalities, age groups and backgrounds. The diversity of our workforce mirrors the diversity of our membership and creates an inclusive culture within our organisation.

CPA Australia reports our workplace profile with the Workplace Gender Equality Agency [WGEA] in Australia. We support gender equality through policies, such as those related to flexible work, equal employment opportunities and parental leave.

CPA Australia's most recent WGEA report for the period 2017-18 can be found at:

<http://intranet/EmployeeResources/Documents/2017-18%20Public%20WGEA%20report-signed.pdf>

The gender composition of CPA Australia's workforce was 66 per cent female and 34 per cent male for the year ending 31 December 2017, the same as that for the prior year. The WGEA report identifies measures being taken in the short term to develop policies and/or strategies to address gender equality in retention and to achieve equal gender representation at governing body level. The Integrated Report also describes measures being taken to address gender pay gap issues amongst the predominantly Australian-based workforce (> 80 per cent) across all 'bands' of employment classification.

## **ENVIRONMENT**

**Principle 7: Businesses should support a precautionary approach to environmental challenges;**

**Principle 8: undertake initiatives to promote greater environmental responsibility; and**

**Principle 9: encourage the development and diffusion of environmentally friendly technologies.**

CPA Australia's 2017 Integrated Report outlines the organisation's disclosure materiality process in the following terms:

The contents of this report have been defined by removing issues that do not: rate highly for stakeholders; have a significant business impact; or routinely appear as a top three issue for any stakeholder group.

Environmental aspects are assessed to have both low impact and influence on stakeholder assessments and decisions, and further do not present as significant threat or opportunity to the organisation's business model.

Environmental, social and governance issues nevertheless feature significantly in CPA Australia's research, policy development and advocacy activities as it seeks to lead the accounting profession, generate business transformation and influence public policy in the public interest. The following are highlighted:

### **Research – directly undertaken or commissioned from academic institutions**

- **Sustainability information and the cost of capital**

The study examines the relationship between various types of sustainability information and a firm's cost of capital. The study is based on a sample of 385 public companies drawn from the UK, Australia and Hong Kong and found strong negative (favourable) association between overall sustainability rating and cost of capital, most pronounced around environmental matters though neutral in relation to governance.

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/sustainability/sustainability-and-the-cost-of-capital-report-2017.pdf?la=en>

- **An exploration of the information needs of selected stakeholders of integrated reporting**

Based on in-depth interviews with twenty stakeholders representing financial, environmental and civic, the study provides insights into the momentum and impediments to achieving deeper mainstream adoption of integrated reporting in Australia.

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/sustainability/report-exploration-stakeholder-needs-integrated-reporting.pdf?la=en>

- **Carbon reporting: Regulatory and voluntary disclosures**

Comprises a longitudinal study of ASX listed companies drawn from the National Greenhouse and Energy Reporting Act register analysing gaps between mandated emissions and energy reporting to government and this information voluntarily disclosed within corporate nonfinancial reporting.

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/sustainability/carbon-reporting-regulatory-and-voluntary-disclosures.pdf?la=en>

- **Climate change and professional liability risk for auditors**

A comparative analysis of legal obligations and professional liability for Australian auditors, based on UK non-profit environmental law organisation ClientEarth's publication *Risk business – Climate change and professional liability risk for auditors*.

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/esg/climate-change-and-professional-liability-risk-for-auditors-introduction.pdf?la=en>

### **Submissions to government and other policymakers**

CPA Australia's prior 2016 Communication on Engagement mentioned submission to the Senate Economics References Committee inquiry into carbon risk disclosure. CPA Australia was subsequently invited and appeared at public hearings of the inquiry and a supplementary submission was made:

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/esg/sesc-inquiry-carbon-risk-disclosure-public-hearing.pdf?la=en>

Readers will be aware of the significant interest and momentum for change generated by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). In awareness of the significance of transparency and markets' capacity to appropriately price risk, CPA Australia has taken an early and active role on behalf of its members. CPA Australia's submission to the TCFD can be found at:

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/sustainability/submission-task-force-recommendations-climate-related-financial-disclosures.pdf?la=en>

## ANTI-CORRUPTION

### **Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.**

These matters are again addressed in CPA Australia's 2017 Integrated Report where it is stated:

CPA Australia has zero tolerance for any form of fraud or corruption. We strive to prevent all forms of international corruption as outlined in the *Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999*, or the equivalent laws of any country in which we operate.

Anti-corruption practices are governed by the CPA Australia Code of Conduct, which prohibits conflicts of interest, gifts and gratuities, and requires all employees and volunteers to ensure that their behaviour is in compliance with all laws and regulations relevant to the legal jurisdictions in which we operate.

The Code of Conduct applies to all directors, employees and volunteers. All directors receive training on the Code at their induction and when substantial changes are made thereafter. Employees are assessed on their adherence to the Code of Conduct as part of their performance reviews.

All CPA Australia personnel have a responsibility to report improper conduct, as defined by the Code, in accordance with the CPA Australia Whistleblower Policy, which is reviewed by the Board every two years.

Our risk management approach also provides a system of internal controls across the three lines of defence (front line management, risk management and compliance, internal audit) to ensure we minimise the risk of fraud and corruption, and includes:

- The CPA Australia Code of Conduct
- The rigour of our systems and processes
- Yearly online compliance training for staff and the Board

- Annual internal controls questionnaire for executive managers, as part of the financial statements
- Regular internal audits

There were no incidents reported in 2011, 2012, 2015 or 2016. In 2013 and 2014, there was two reported incidents of alleged minor financial misconduct related to credit card misuse. - - In 2017, we had one substantial issue and one that is currently under investigation. Both issues relate to minor financial misconduct regarding credit card misuse.

The combatting of corruption and bribery has continued to be a significant feature in CPA Australia's advocacy centred to a significant degree on government's engagement with the business sector in relation to the Commonwealth Crimes Legislation Amendment (Combatting Corporate Crime) Bill 2017. CPA Australia was also invited and participated in 2017 in the consultation of the OECD Working Group fourth evaluation of Australia's compliance with the *Anti-bribery Convention*. The following related submissions supporting the strengthening of Australia's anti-bribery and corruption laws and rules are highlighted:

- Commonwealth Laws Amendment (Whistleblowers) Bill 2017 – Exposure Draft

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/ethics/treasury-exposure-draft-corporate-whistleblowers.pdf?la=en>

- Commonwealth Treasury – Reforms to combat illegal phoenix activity – Draft legislation

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/corporate-law/combating-illegal-phoenixing.pdf?la=en>

- ASX Corporate Governance Council: Consultation on the proposed fourth edition of the ASX Corporate Governance Principles and Recommendations

<https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/media/submissions/corporate-law/asx-corporate-governance-principles-recommendations.pdf?la=en>

Within this, Australia's principal non-legislative instrument of corporate governance for listed companies, most relevant in relation to UN Global Compact Principle 10 is proposed Recommendation 3.4 that a listed entity should have and disclose an anti-bribery and corruption policy.

Highly relevant also in the draft fourth edition is Recommendation 1.5 concerning having and disclosing a diversity policy, which can be seen as pertaining to **UN Global Compact Principle 6**. And, along similar lines, Recommendation 7.4 concerning disclosure of material

environmental and social risks, reflecting similar desired business behavioural transformation to that expressed in **UN Global Compact Principle 7**.