

REPORTING TRILOGY – RESEARCH ON REPORTING DISCLOSURES: PART 1

Anti-bribery and corruption reporting disclosures



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This is the first report in the second trilogy¹ of research projects carried out by the Association of Chartered Certified Accountants (ACCA) Australia and New Zealand, in collaboration with Net Balance Foundation Limited. The theme of this ongoing research is to analyse disclosures on specific areas of non-financial performance by the Australian Securities Exchange Top 50 (ASX 50).

This research report:

- analyses disclosures relating to bribery and corruption;
- highlights the strengths and weaknesses of Australian companies reporting on this issue;
- makes recommendations to improve future reporting around management of risks relating to bribery and corruption.

Bribery and Corruption

On a global scale, despite better enforcement and new anti-corruption legislation in recent years, bribery and corruption issues continue to infiltrate a growing number of corporations across a wide range of sectors and geographic locations. It is therefore paramount that companies, particularly those which operate within high risk sectors, have effective systems, policies and procedures in place to counter this unacceptable business behaviour. Reporting on the overarching anti-corruption programme is just as important: it is a sign that companies are taking responsibility for their (and their employees') behaviour and that they acknowledge the negative ramifications on their reputation, integrity and legitimacy to operate should they ever be subjected to a corruption scandal.

Australia has not traditionally been considered a country that has a problem with corruption, and since 2003, was in the top ten rated nations in the *Global Corruption Perception Index* (GCPI)² and therefore one of the 'cleanest' nations in the world. Australia's ranking slipped to 11 in 2007 in part due to changed perceptions of Australian officials following the Australian Wheat Board (AWB) 'Oil for Food' scandal³.

However, according to the Centre for Australian Ethical Research's (CAER) report *Just how business is done? – A review of Australian business' approach to Bribery and Corruption*, Australia has less severe sanctions in place than the UK and US for restricting bribery and corruption. Furthermore, certain discrepancies relating to definitions of facilitation payments has been identified by the OECD as being a "hole in the system for administering anti-corruption legislation".

The subject area of bribery and corruption is wide-ranging and takes many forms. Specific 'high level' examples include bribe payments to governments, facilitation payments to speed up processes in place, siphoning off money donated to charity so that it benefits others such as corrupt officials, and money laundering. In addition, there are many examples of more low key activities that have the potential to infiltrate many, if not all, companies on the ASX 50. Examples include anticompetitive sale of products and services, honesty problems (such as sales assistants stealing from the till or large scale theft of company resources), inappropriate lobbying to governments, making political donations in return for favourable treatment, and breaching confidentiality of customer details and records.

The issue of bribery and corruption is complex and highly sensitive – public disclosures of such a sensitive topic can lead to misguided perceptions (eg. if a company has an anti-corruption programme in place then surely it must have a problem?). Because of this, our research indicates that its reporting by many companies has often been superficial and incomplete.

Encouragingly, a number of guidelines and initiatives are available for companies which can assist with their disclosures relating to countering bribery and corruption. Although most of these tools may be global in scope or have been developed outside Australia, companies should be aware that such help exists and that irrespective of origin, these tools are applicable to them. Examples include:

- Transparency International – 'The Business Principles for Countering Bribery' is a tool to assist enterprises to develop effective measures to countering bribery in all of their activities, including effective external communication of them;
- FTSE4Good Index Series⁴ – designed to measure the performance of companies that meet globally recognised corporate responsibility standards and to facilitate investment in those companies. One element of the Index is countering bribery, which includes disclosure on the issue;
- UN Global Compact⁵ – in 2004 'Transparency and Corruption' became the tenth principle, which states 'Businesses should work against corruption in all its forms, including extortion and bribery'. Participants must annually report progress on all principles via a 'Communication on Progress';
- Global Reporting Initiative (GRI G3)⁶ – has a small number of indicators within its data set covering bribery and corruption disclosures.

Research methodology

This research assesses the extent to which corporations have implemented, and reported on, anti-corruption measures. This has been done by analysing publicly available disclosures made by the the largest 50 Australian public companies (by market capitalisation) as recognised by the ASX 50, on 30 May 2008.

The research was carried out between 11 June 2008 and 27 June 2008. The criteria used were based on criteria first developed by Transparency International (TI) in 2004, when similar research was conducted by ACCA and TI. Consideration was also given to the G3 Guidelines and FTSE4Good criteria. Corporate information was sourced from published sustainability reports (or equivalent), annual reports, corporate governance information, code(s) of conduct, code of ethics and business principles. In all, 178 individual reports relating to the ASX 50 were analysed. A secondary researcher verified and cross-checked 20 of the 50 analyses to ensure consistency. Table 2 outlines the 36 separate measures used to compile the scores used in this report.

In addition to focusing on the top ten scorers and using the entire sample to provide a broader picture, companies that operate in business sectors categorised as high-risk (as defined by the FTSE4Good anti-bribery criteria) were grouped to provide an insight into disclosure practices of those companies expected to be at the leading edge of anti-corruption programmes and associated reporting. Twenty one companies were categorised as those operating predominately in high risk sectors. They are referred to in this report as the 'High Risk 21'.

The criteria by which each organisation's disclosures were assessed fall into five groups as follows:

- Policy – covered indicators such as disclosure of a no-corruption policy and code of business conduct, together with its communication policy to employees and application to business partners;
- Organisation – criteria covered indicators such as description of the governance structure to manage bribery and corruption, sanction processes in place, board commitment and risk based assessment;
- Programme Implementation – criteria covered indicators such as disclosures on the anti corruption programme in place underpinning the policies and codes, description of how the programme is communicated and implemented throughout the organisation (including entities within its control) and any internal control systems in place to minimise risk of corruption;
- Performance – criteria covered disclosures on bribery and corruption incidents during the reporting period, including violations of code, employee dismissals, legal cases, whistle-blowing and contract cancellations;
- Materiality and Responsiveness – criteria covered the bribery and corruption GRI G3 indicators and use of the AA1000 framework in reporting processes.

Table 1 – The ASX Top 50 companies used in the analysis

1	AGL Energy Limited	14	CSL Limited*	26	Mirvac Group*	40	Telecom Corporation Of New Zealand Limited*
2	Alumina Limited*	15	Fairfax Media Limited	27	National Australia Bank Limited	41	Telstra Corporation Limited.*
3	Amcors Limited*	16	Fortescue Metals Group Ltd*	28	Newcrest Mining Limited*	42	Toll Holdings Limited*
4	AMP Limited	17	Foster's Group Limited	29	News Corporation Inc (Voting CDI)	43	Transurban Group
5	ASX Limited	18	Goodman Group	30	Orica Limited*	44	Wesfarmers Limited
6	Australia And New Zealand Banking Group Limited	19	GPT Group	31	Origin Energy Limited*	45	Westfield Group
7	AXA Asia Pacific Holdings Limited	20	Insurance Australia Group Limited	32	Qantas Airways Limited	46	Westpac Banking Corporation
8	Babcock & Brown Limited	21	Leighton Holdings Limited*	33	QBE Insurance Group Limited	47	Woodside Petroleum Limited*
9	BHP Billiton Limited*	22	Lend Lease Corporation Limited*	34	Rio Tinto Limited*	48	Woolworths Limited
10	Bluescope Steel Limited*	23	Macquarie Airports	35	Santos Limited*	49	WorleyParsons Limited*
11	Brambles Limited*	24	Macquarie Group Limited	36	St George Bank Limited	50	Zinifex Limited*
12	Commonwealth Bank of Australia	25	Macquarie Infrastructure Group	37	Stockland		
13	Crown Limited			38	Suncorp-Metway Limited.		
				39	Tabcorp Holdings Limited		

* Denotes companies that principally operate in business sectors categorised as high-risk (as defined by the FTSE4Good anti-bribery criteria)

Table 2 – Detailed scoring methodology

	Criteria	Description/Notes	Score Structure
POLICY	1.1	Publishes that it has a no-corruption policy.	For full score, company should also make reference to any guidance documents/protocols used when developing the policy document.
	1.2	Reports details of communication of policy to employees.	This can be via the intranet, induction, training, focus groups and by other methods.
	1.3	States that the policy applies to business partners (including agents, suppliers and contractors) i.e. they must not promise, solicit, give or accept bribes as part of their business relationship with or on behalf of the company.	Companies can state that just one of these groups, or all of them are expected to adhere to the policy – this will vary depending on the organisation.
	1.4	Reports that it has a Code of Business Conduct or equivalent for employees.	For full score, company should also make reference to any guidance documents/protocols used when developing this set of principles.
ORGANISATION	2.1	Reports that the board (or equivalent) commits to the Programme.	The report needs to state overall CEO/Board support for the bribery/corruption programme.
	2.2	Reports that it has set up an organisational structure to counter corruption.	This can include disclosing the senior exec/board member that has overall responsibility.
	2.3	Reports on how its anti-corruption Programme is communicated to business partners.	Via internet, email, training, group discussion etc.
	2.4	Describes sanctions process for breaches of policy.	Full score will require a detailed description of the risk assessment processes in place, how they are carried out and by whom, how results are communicated and what they were etc. To get the full score in this, the percentage and total number of business units analysed for risks related to corruption should be disclosed.
	2.5	Risk based assessment carried out to identify the vulnerability of the company to bribery corruption.	This involves a description of the systems in place to ensure ethical appointment and remuneration of business partners and intermediaries, avoiding any chance of bribery being used to influence decisions.
	2.6	Appropriate systems for appointment and remuneration of business partners and intermediaries.	FTSE: due diligence and vetting of agents' anti-bribery policy, or that partner or intermediary payment is not above market rates, which could indicate that the partner or intermediary intended to facilitate bribery.
	2.7	Participation in any industry groups against corruption/bribery.	For example, EITI, publish what you pay, IBLF, partnership against corruption initiative.

Table 2 – Detailed scoring methodology (continued)

	Criteria	Description/Notes	Score Structure
PROGRAMME IMPLEMENTATION	3.1	Reports use of risk led prioritisation/implementation in development, implementation and improvement of the Programme.	Drawing on criteria 2.5 above, this criterion is asking for disclosure on how the information gleaned from the risk assessment is used to then develop and implement the programme. 0/1
	3.2	Publishes description of its anti-corruption Programme.	(0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.3	Reports how it carries out internal and external communication of the Programme.	Intranet, training, focus groups, employee induction, board training, general awareness raising via posters/adverts. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.4	Reports on stakeholder consultation in development and improvement of the Programme.	This can be both internal and external stakeholders - employees, bribery/corruption organisations, government, NGOs, suppliers, business partners. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.5	Reports on application of its Programme to activities over which it has control.	0-1
	3.6	Reports on how it provides provide effective advice and issues reporting channels.	Whistleblowing, ethics hotline. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.7	Reports on procedures in place to remedy non-compliance.	This would include a description of what happens if non-compliance actually takes place. Could cover: disciplinary proceedings, dismissals, processing of ethics hotline/whistleblowing reports etc. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.8	Reports how its commitment to anti-corruption is incorporated into its human resources polices and processes.	For example - included in induction for new employees which is coordinated by HR. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.9	Reports on how it implements internal control systems.	This includes the internal control of the risks identified in the assessment procedure outlined in the above criteria - monitoring, compliance, action plans for non compliance and so on. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	3.10	Reports on how it monitors and improves the Programme.	This could include audits (internal and external, if necessary), feedback from employees who are using the programme, learning process after there is an incident of non-compliance and action plan to ensure it doesn't happen again. (0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]

Table 2 – Detailed scoring methodology (continued)

	Criteria	Description/Notes	Score Structure	
PERFORMANCE	4.1	Reports number of violations.	0-1	
	4.2	Reports number of dismissals of employees.	0-1	
	4.3	Reports number of contracts terminated.	0-1	
	4.4	Reports results of employee surveys.	Detailed overview of results of the survey, along with how improvements will be made in the future based on these results.	(0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	4.5	Reports that reviews of the Bribery/Corruption programme have taken place by Board and Audit Committee.	This includes information on how the review was carried out and what its findings and recommendations were.	(0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	4.6	Reports on key anti-corruption issues.	In order to get the maximum points, this should not just be a bullet point list of issues, but a more detailed account of each issue, the background and how it relates to the reporting organisation.	(0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	4.7	Reports that charitable contributions made can be accessed publicly.	This should inform the reader where they can access this information as well.	0/1
	4.8	Reports details of all political contributions made or that it has a policy not to make such contributions.	This should inform the reader where they can access this information as well.	0/1
	4.9	Reports targets for Programme improvement or performance.	In order to get the point, these targets need to be set in accordance with SMART principles.	0/1
	4.10	Assurance statement explicitly covers Programme reporting.		0/1
	4.11	Reports percentage of employees trained in organisation’s anti-corruption policies and procedures.		0/1
	4.12	Reports actions taken in response to incidents of corruption.	Detailed overview of actions taken against all instances of corruption within the organisation.	(0-4) [0 –no disclosure, 1 – states it has one but no details given, 2 – discloses some content, 3 – discloses detailed content, 4 – discloses in full]
	4.13	Reports total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes.		0-1
MATERIALITY AND RESPONSIVENESS	5.1	Aligns reporting to AA1000.	0/1	
	5.2	Aligns reporting to GRI framework.	This includes disclosure against SO2-SO7 (if no information provided, should state in GRI Index that not material for the score)	0/1

Overall

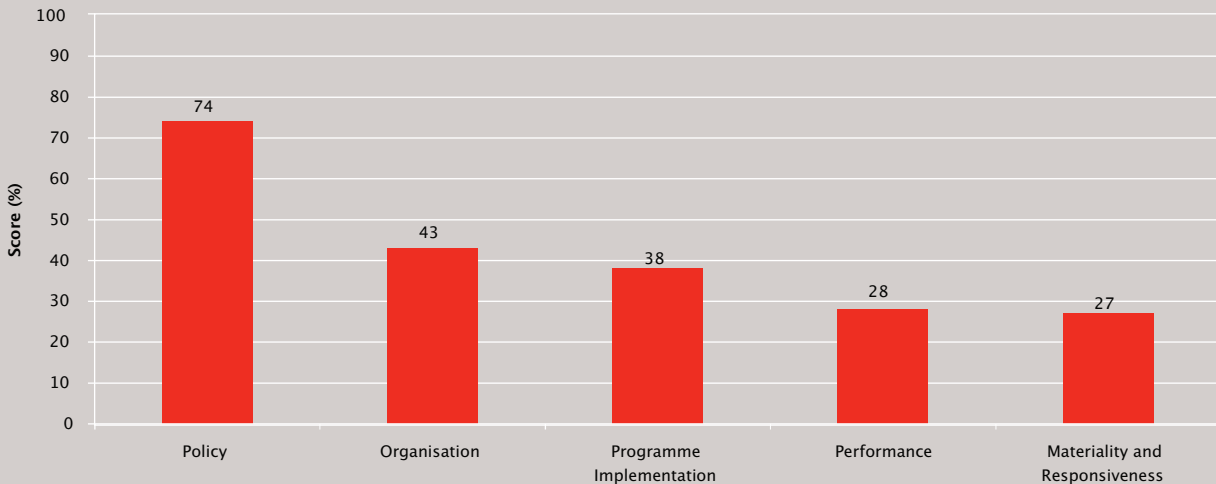
There is a large variation in performance of the companies included in this study in terms of their countering bribery and corruption disclosures. The overall scores against all criteria (in the five criteria groups) ranged from 80 percent for one company (Stockland) to two companies that scored under 20 percent. It should be noted that these results have no correlation with the existence of bribery and corruption within these organisations, they relate only to the disclosure practices adopted by them.

The average performance across all fifty companies was 41 percent. This was higher than the previous reports in this series, which focused on human capital management (average: 28 percent), climate change (average: 21 percent) and stakeholder engagement (average: 25 percent) disclosures. This is likely due to bribery and corruption being considered more of a 'business' issue. This was also re-enforced by much of the information published being in annual reports and stand alone codes and policies rather than sustainability reports. The corporate governance and risk management sections of the annual report contained some of the information, as did the codes. Any information in the sustainability report was usually a summary of what was contained in the other documents. This indicates that bribery and corruption is considered more of a key business issue and risk than other sustainability related topics, hence it is given more extensive coverage in the annual financial report and accounts.

Across each of the criteria elements – policy, organisation, programme implementation, performance, materiality and responsiveness – there was also substantial variability (see Fig 2):

- ASX 50 companies scored on average 74 percent on the “Policy” criteria, acknowledging that they had an anti-corruption policy or at least a code of conduct in place;
- disclosing how the organisation was structured to deal with bribery and corruption proved more of a challenge with a total score of 43 percent for ASX 50 companies;
- disclosure relating to how they implemented their anti-corruption programs also leaves room for improvement with an average score across all ASX 50 companies of only 38 percent;
- similarly, companies can do more to disclose the actual performance of their anti-corruption practices across the reporting period with companies scoring an average of 28 percent in this area;
- the area where companies can improve most is to adopt an internationally recognised standard (either the AA1000 or Global Reporting Index (GRI) frameworks) for identifying the material issues (including incidence of bribery and corruption) in their company. ASX 50 companies scored an average of only 27 percent in this area.

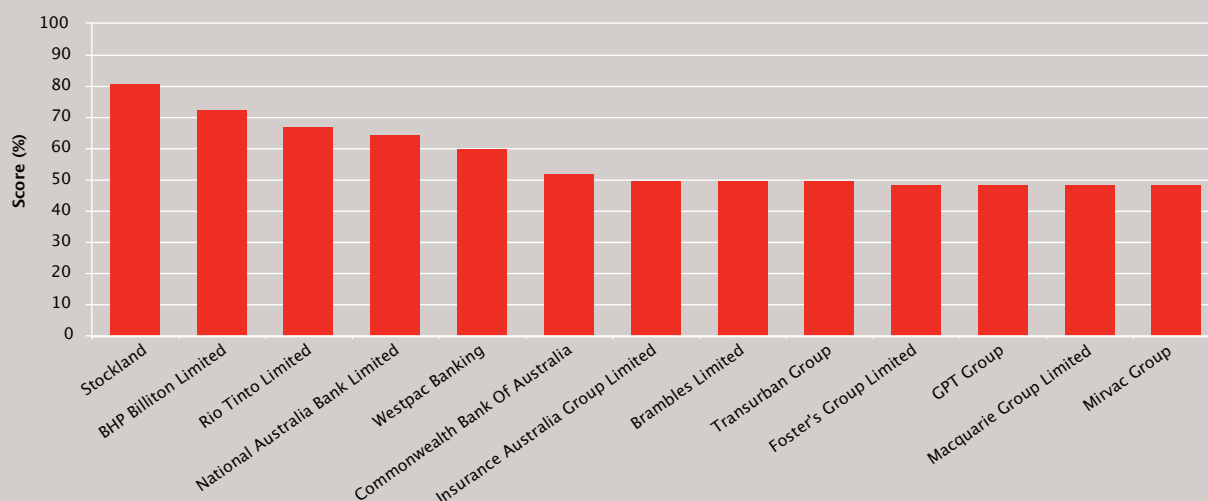
Figure 1 – Average overall score of the ASX 50 companies for each criteria group



The top ten performing companies in the ASX 50 on countering bribery and corruption disclosure are shown in Fig 3. The average score for this group was 62 percent and individual company scores ranged from 80 percent for Stockland and 48 percent for

Foster's Group Limited, GPT Group, Macquarie Group limited and Mirvac Group (Four companies scored 48 percent to tie for tenth place, so the 'top 10' is in fact the top thirteen).

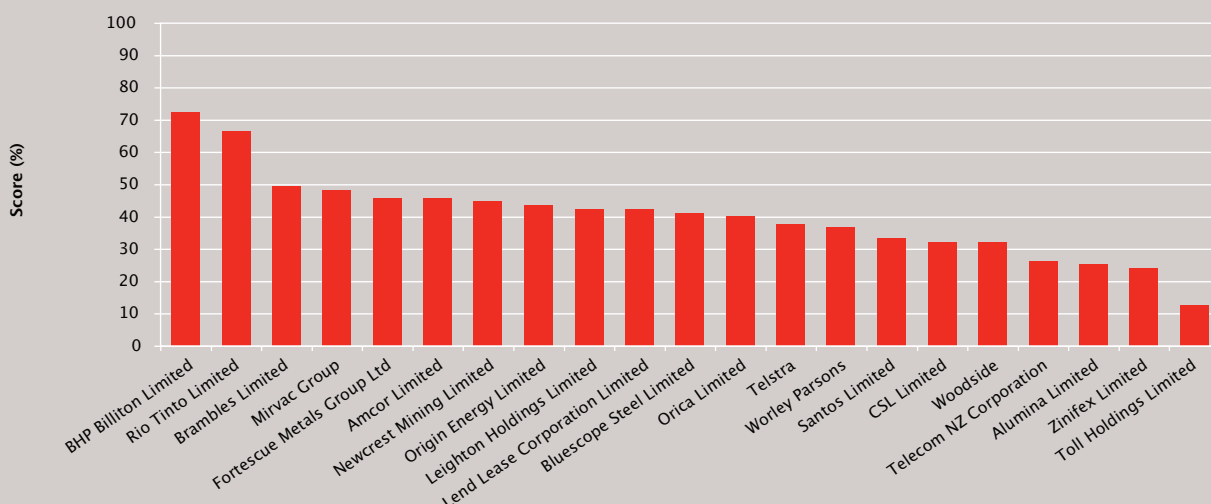
Figure 2 – Overall score of the Top 10 ASX 50 companies



Of the 21 companies which operate in high risk sectors as defined by FTSE4Good anti-bribery criteria, the overall results were comparable to the average of the whole ASX 50.

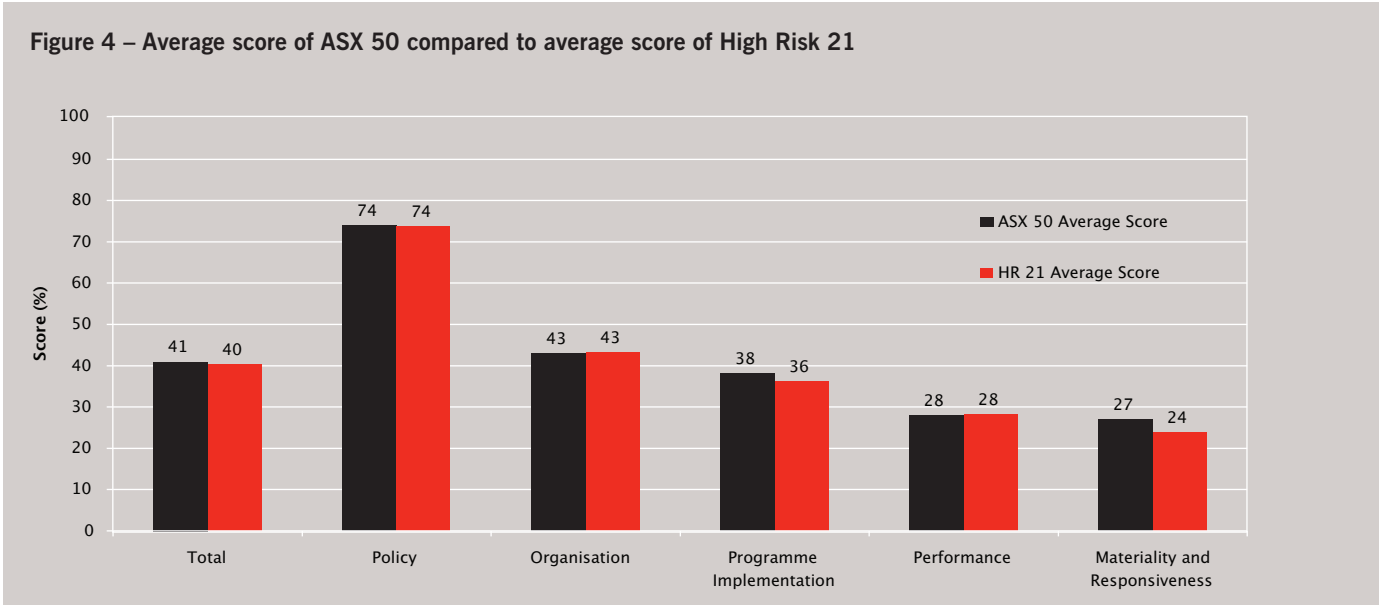
BHP Billiton (72 percent) and Rio Tinto (67 percent) were the two companies which scored the highest in this group (see Fig 4).

Figure 3 – Overall score of the ASX 50 High Risk 21



So how well do those companies operating in high-risk sectors compare to the total ASX 50 group? Figure 5 compares the average result overall, and for each criteria group. There is no significant difference between the groups. This may be

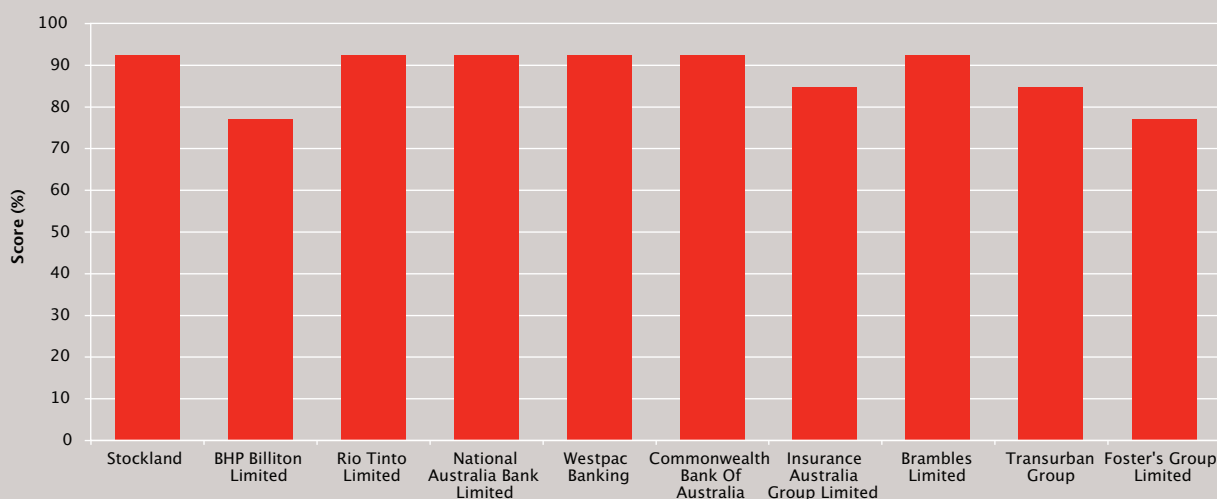
considered somewhat concerning as one might expect companies operating in high-risk sectors to adopt a more rigorous approach to bribery and corruption disclosure.



Criteria Group Results

Bribery and Corruption – Policy

Figure 5 – Performance of Top 10 ASX 50 companies in Policy criteria group



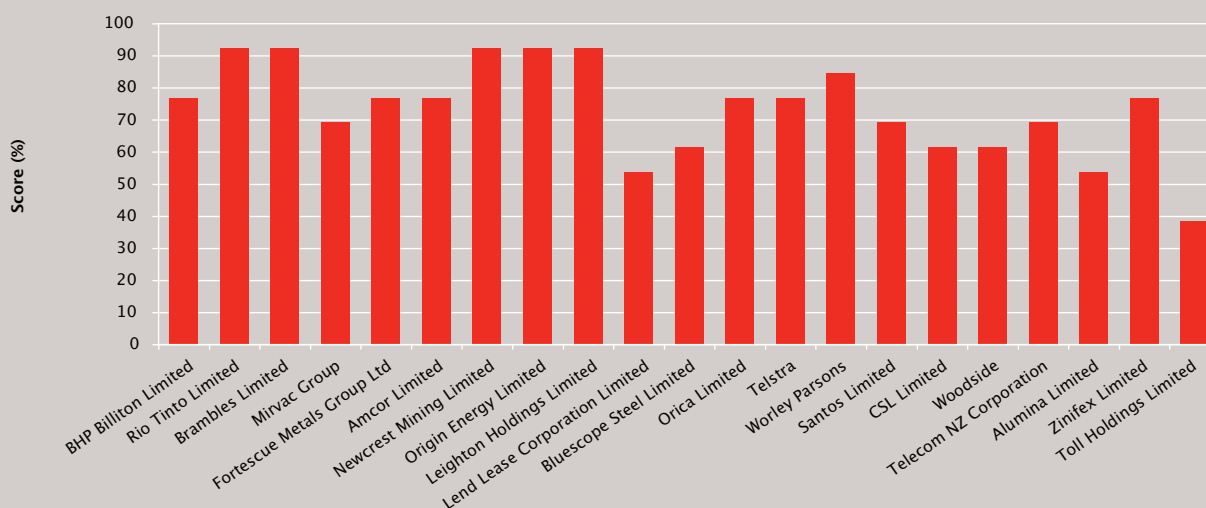
The 'Policy' criteria group was the highest scoring group of the five, with an average score of 74 percent across all fifty companies, an average score also of 74 percent for the High Risk 21 and a Top 10 average of 88 percent (see Fig 6). These relatively high scores are because all 50 organisations disclosed some information on their code of conduct or ethical conduct policy on their website (either a summary description or full pdf version). Many companies (34) extended this policy to cover suppliers, agents or contractors as well as employees and directors.

Thirty eight companies also described (in varying detail) how this code of conduct was communicated to employees. This could be through training sessions, induction modules or intranet awareness-raising.

Of the High Risk 21 (see Fig 7) only Lend Lease, Alumina and Toll Holdings scored below 60 percent while 5 companies scored above 90 percent.

Having an organisational Code of Ethical Conduct in place sets a standard by which employees must behave. Outlining how individuals are expected to behave in terms of integrity, giving and receiving gifts, accepting or offering bribes, facilitation payments, conflicts of interest and other issues related to potentially corrupt activities gives both internal and external stakeholders a clear view on how the organisation is run and its level of commitment to operating in a sustainable, ethical manner.

Figure 6 – Performance of ASX 50 High Risk 21 companies in the Policy criteria group



Best Practice Case Study

Westpac

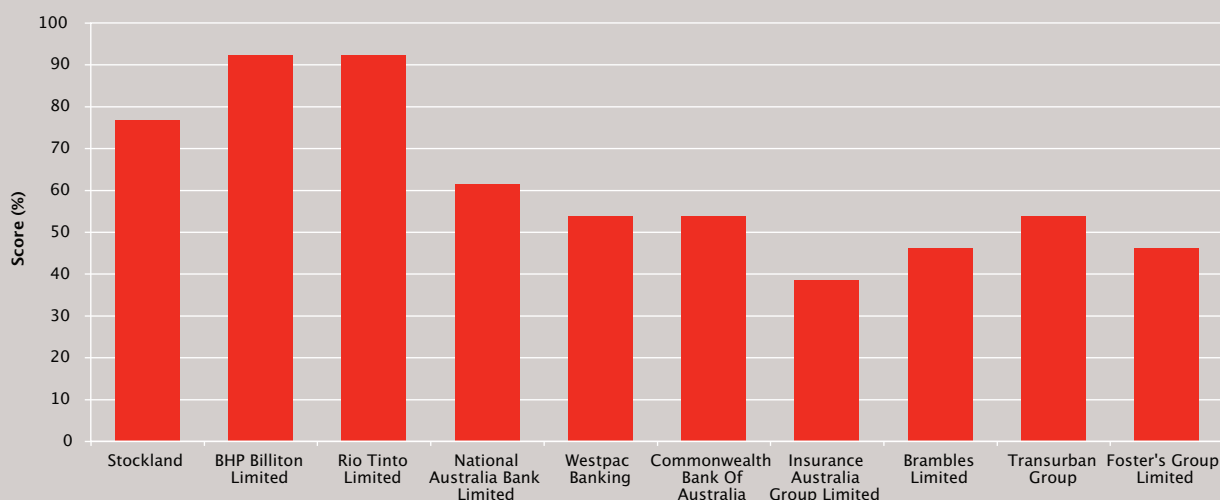
Westpac was one of the top scoring companies with 92 percent in this criteria group. The company Code of Conduct and Business Principles is available to download on the corporate website. These two documents include Westpac's position on issues such as conflicts of interest, integrity, accepting and receiving gifts, whistle-blowing, money-laundering and fraud, governance, political donations, transparency, community investment and dealing with grievances. These two codes have been drawn up

using key global initiatives as a guide, including the UN Global Compact, ILO Declaration on Fundamental Principles and Rights at Work, OECD Guidelines for Multinational Enterprises and the Caux Round Table Principles for Business.

Westpac discloses in its report that it held a 'Fraud Expo' for all employees, which included extensive training on issues relating to fraud and corruption and how to manage them. The Code of Conduct and Business Principles apply to both employees and contractors – everyone who works for Westpac are expected to behave in accordance with them.

Bribery and Corruption – Organisation

Figure 7 – Performance of Top 10 ASX 50 companies in Organisation criteria group



Scores in this criteria group ranged from 92 percent to 23 percent. The top scoring companies were BHP Billiton and Rio Tinto Ltd (see Fig 8) and the average across the ASX 50 was 43 percent – substantially less than the Policy criteria group.

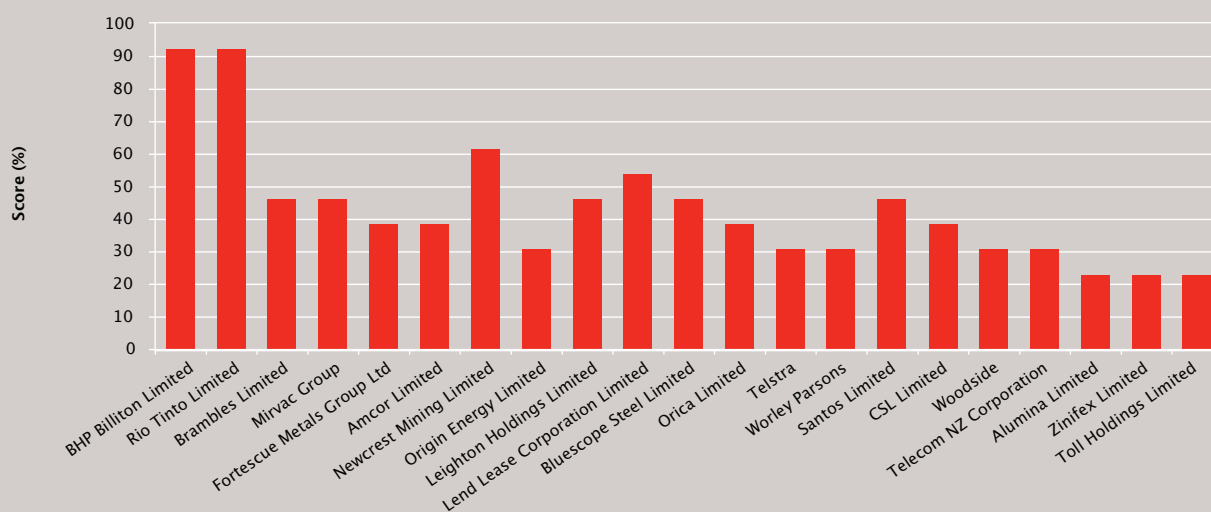
This isn't surprising, as multinational mining corporations frequently operate in countries and industries which are identified as susceptible to bribery and corruption activities and therefore need to ensure that the relevant governance structures and risk management processes are in place to manage the issue and minimise the risk of its occurrence.

Within the ASX 50 there are 41 companies which state that there is board level commitment for any bribery and corruption codes, policies, and programmes that are in place. Thirty-seven companies disclose that they have an organisational structure in place specifically for combating corruption. This might take many forms including a specific board committee, ethics compliance officers, or similar. Having this sort of governance structure, board commitment and accountabilities in place ensures that there are robust processes to manage and monitor corruption incidents and demonstrates to stakeholders that it is an issue that's taken extremely seriously and managed accordingly. There were very few companies that explained the process in place which ensures transparent and ethical appointment of business partners and intermediaries.

Most companies describe their generic risk management processes in place which are incorporated into everyday business processes and cover a wide variety of different risks to the business, however, there were very few which outlined how risks specifically relating to bribery and corruption were managed, either as part of the corporate risk management system or as a separate, stand alone system.

In the High Risk 21 group it was again BHP Billiton and Rio Tinto which scored the highest (see Fig 9). It is likely that many of the companies which scored poorly in this area do, in fact, have good governance structures in place to manage bribery and corruption. It is the lack of public disclosure of those structures, which we believe resulted in the lower scores. There may be a potential business opportunity for these companies to make better public disclosure of their governance structures designed to manage bribery and corruption, which may result in higher levels of public confidence.

Figure 8 – Performance of ASX 50 High Risk 21 companies in the Organisation criteria group



Best Practice Case Study

BHP Billiton

BHP Billiton makes it very clear in its reporting how accountability for bribery and corruption is managed within the organisation:

“The Guide and its principles are embedded throughout the organisation, with managers and supervisors held accountable for not only their actions but also the actions of their staff. This starts at the most senior level of the Company, with the CEO requesting annual confirmation from his direct reports that they and their direct reports have read the Guide and have discussed its contents.”

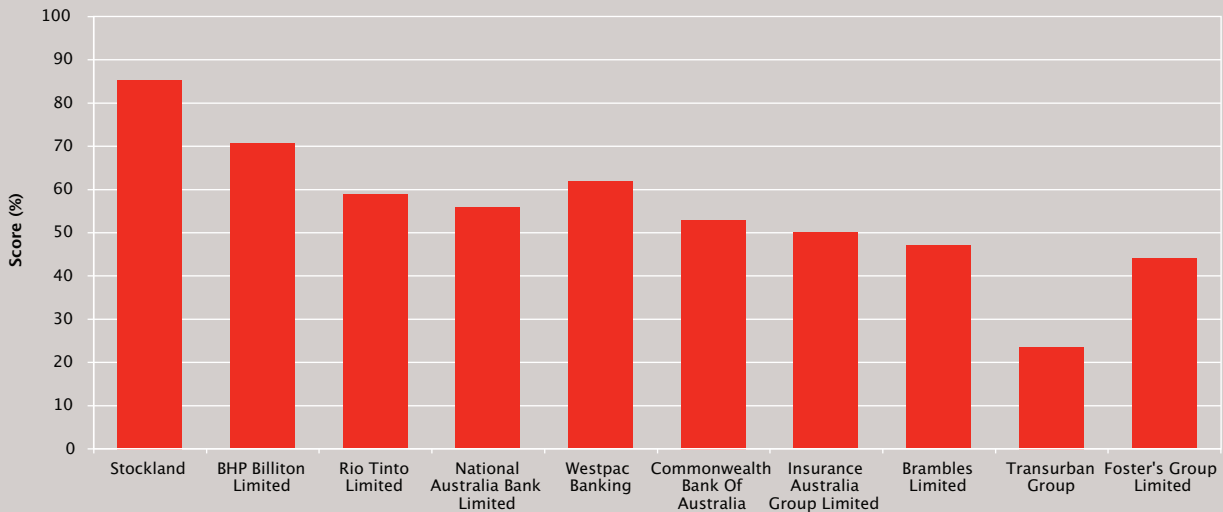
The Code of Conduct also clearly explains accountability of Board members, executives, managers, and supervisors in relation to the Code. BHP Billiton has a Global Ethical Panel in place, whose remit is to ensure implementation of the Code, act as an information resource for employees, and oversee process for handling breaches and reporting on compliance.

BHP’s reporting also clearly explains that the overall corporate risk management procedure includes bribery and corruption risks:

“The Company uses a common risk management framework – called Enterprise-wide Risk Management (EwRM) – across all operations and functions to identify, assess and monitor risks associated with our assets, projects and other business opportunities...Our risk management approach also considers corruption. This includes such practices as bribery, fraud, extortion, collusion, conflict of interest and money laundering, which in this context include an offer or receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something that is dishonest, illegal or a breach of trust in the conducting of our business. We recognise and actively work to address the risk that corrupt activities may be undertaken by management, employees or third parties, such as suppliers and customers.”

Bribery and Corruption – Programme Implementation

Figure 9 – Performance of Top 10 ASX 50 companies in Programme Implementation criteria group



Companies' performances in this criteria group ranged from 85 percent (Stockland was the top scoring company) down to 9 percent. The average across all 50 companies was 38 percent and the Top 10 average was 55 percent (see Fig 10). Only one company – Stockland – gave detailed information on the anti-bribery/corruption programme in place. Several others touched on it, but not at the same level of detail. There were very few companies that explained how the programme is communicated both to internal and external stakeholders. Many explained internal processes for raising awareness of the programme's existence, but only two extended this (or at least disclosed it publicly) to cover external stakeholder groups.

All but one company disclosed some information on their incident reporting and whistle blowing systems in place, in varying levels of detail. Some just state that there is a whistle blowing facility

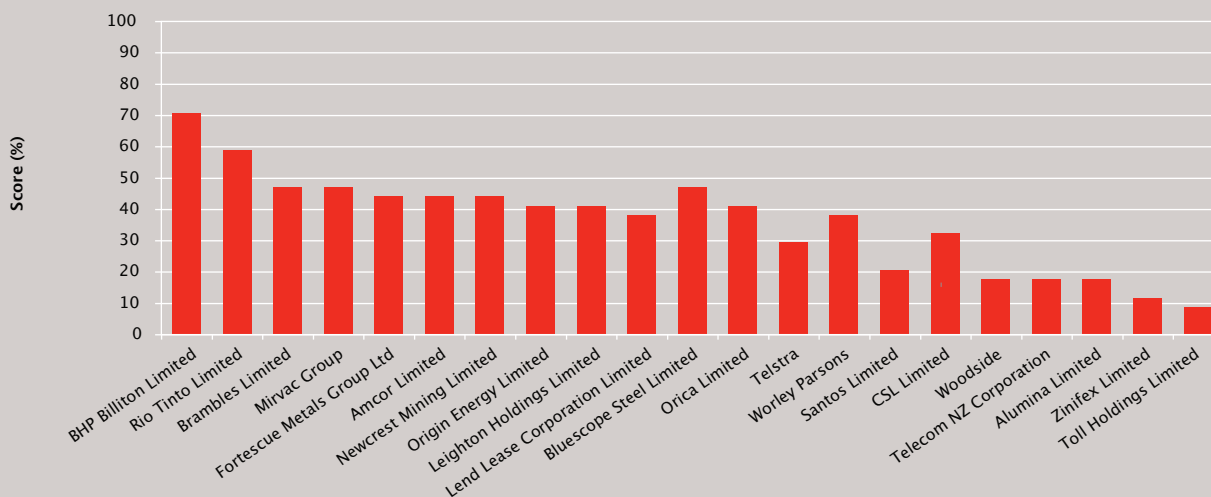
available but give no further information. Others give a full account (including policy statement) on the process behind the facility, how reports are made, how they are processed and where responsibility lies internally for ensuring any incidents are taken seriously and dealt with appropriately. Eighteen companies were given the maximum score for this whistleblowing sub-criterion.

One area on which no company scored the maximum, and only 14 achieved any score at all, was for disclosures and explanations around how bribery and corruption is incorporated into Human Resources policies and processes. It would be reasonable to consider that the Human Resources function as part of its employee induction and training, should be involved in ensuring that all employees and managers (and sometimes its contractors and agents) are aware of the company's policy on anti bribery and corruption.

Within the High Risk 21 group approximately half of this group scored under 40 percent on the Programme Implementation criterion and only two (BHP Billiton and Rio Tinto) scored over

50 percent (see Fig 11). Stakeholder trust can be enhanced by the public disclosure of how bribery and corruption policies are implemented within the organisation.

Figure 10 – Performance of ASX 50 High Risk 21 companies in the Program Implementation criteria group



Best Practice Case Study

Stockland

Stockland publishes an extremely detailed Fraud Policy on the corporate website. This forty page document, along with a Code of Conduct, whistle-blowing policy and risk management policy discloses in detail the company's approach to managing bribery and corruption risk, how individual cases are responded to and processed and the whistle blowing procedure for employees to report anonymously any cases of non-compliance with the Code. There is a whole section of the Policy called 'Prevention', which outlines the processes Stockland has in place to minimise the risk of fraud or corruption occurring, including fraud risk assessment, internal and external audit (of fraud) and fraud control. Elements included in the Fraud Control section include:

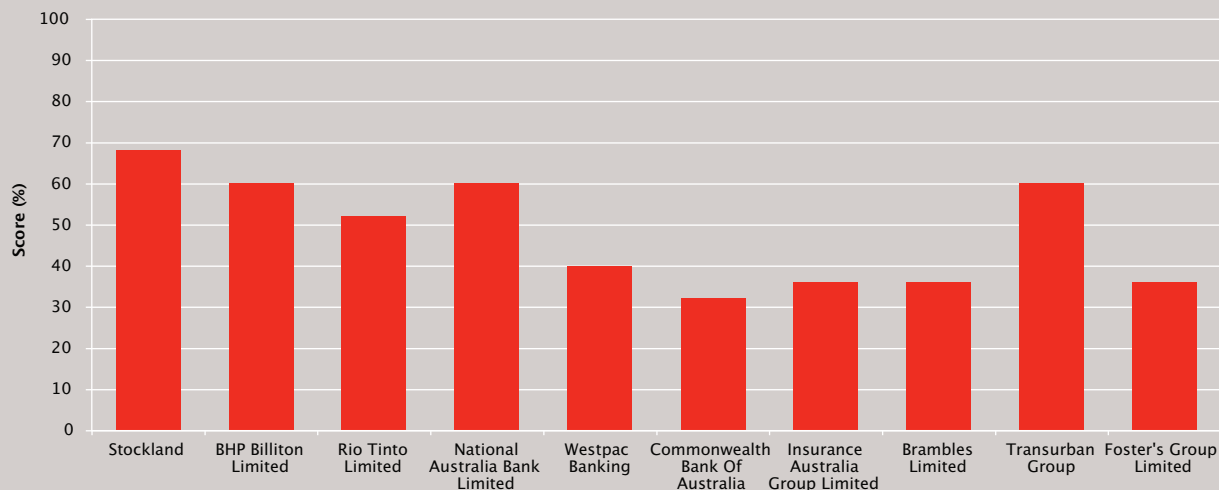
- on-going assessment and evaluation of the governance framework and structures;
- periodic communication from the Board of Directors, Managing Director and risk and compliance officers of support, recognition and use of fraud policies and obligations for officers and employees;

- access and availability of fraud policy, tools and procedures;
- education and training programs and courses for employees, in fraud awareness, fraud identification, fraud risk assessment and management, disclosure and reporting, and investigation and disciplinary procedures; and
- communication to internal and external parties, as appropriate and subject to legal and regulatory obligations, of fraud control initiatives, results of investigations, and profile of reported incidents.

Stockland has described in detail the process the organisation goes through when a whistle-blowing report of non-compliance is made, including how it is processed and how the information is used to feed into audit procedures. Stockland is also one of the few companies that has disclosed the link between Human Resources and managing bribery and corruption. The annual report states that HR induction procedures includes education on corruption and fraud and the Code of Conduct also acknowledges the importance of employees familiarising themselves with company policies.

Bribery and Corruption – Performance

Figure 11 – Performance of Top 10 ASX 50 companies in Performance criteria group



The highest scoring company in this criteria group was Stockland, which scored 68 percent. The lowest score was 0 percent and the average across all fifty companies was 28 percent. This was the second lowest scoring criteria group. This result may indicate that companies are reluctant (perhaps due to confidentiality and sensitivity reasons) to disclose information on incidence of bribery and corruption – including outstanding legal cases and the organisational response (dismissals, contract terminations etc), and how that response feeds into an on-going review process of the bribery and corruption programme in place.

The top 10 average for this criteria group was just 48 percent - indicating that it's a particularly challenging area even for the best practice Australian reporters (see Fig 12).

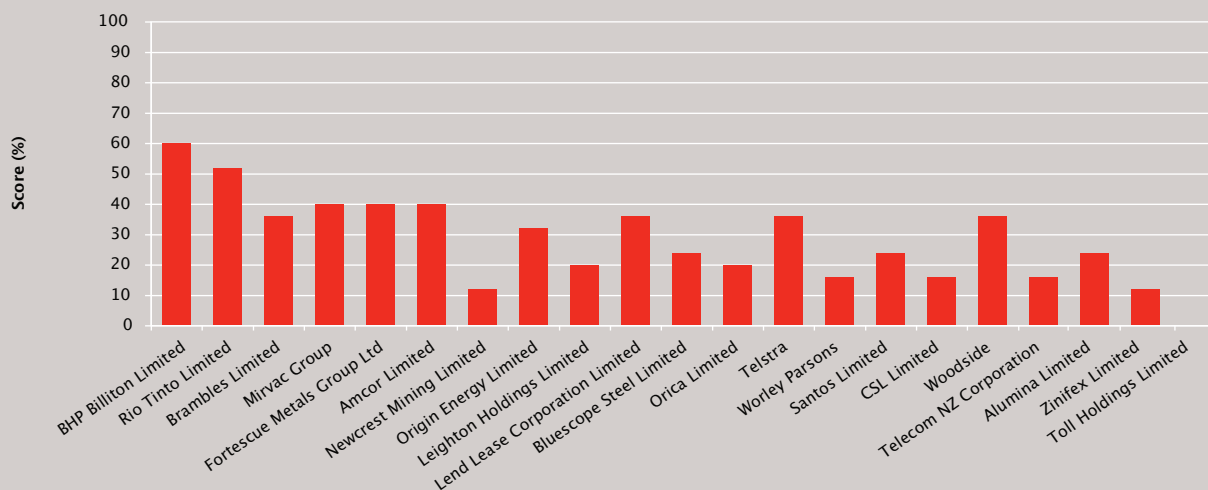
There were some elements of performance criteria in which companies performed better. These include transparently

disclosing political donations and charitable contributions. Thirty-seven of the 50 companies disclosed the total amount of charitable contributions made (some using the London Benchmarking Group Model⁷) and 30 outlined donations made to particular political parties (or stated that none were made).

However, just 12 companies disclosed any violations of the code of conduct that were committed during the course of the reporting period (or stated that there were none). Although organisations may consider that reporting this type of information publicly isn't desirable, stakeholders are likely to prefer it to be reported transparently and the company to explain how they have responded to the incident. There were also very few (three) companies that reported the number of employees dismissed and number of contracts terminated due to corrupt behaviour (or stated that there were none).

Figure 13 shows how the High Risk 21 companies performed on this criterion.

Figure 12 – Performance of ASX 50 High Risk 21 companies in the Performance criteria group



Best Practice Case Study

Stockland

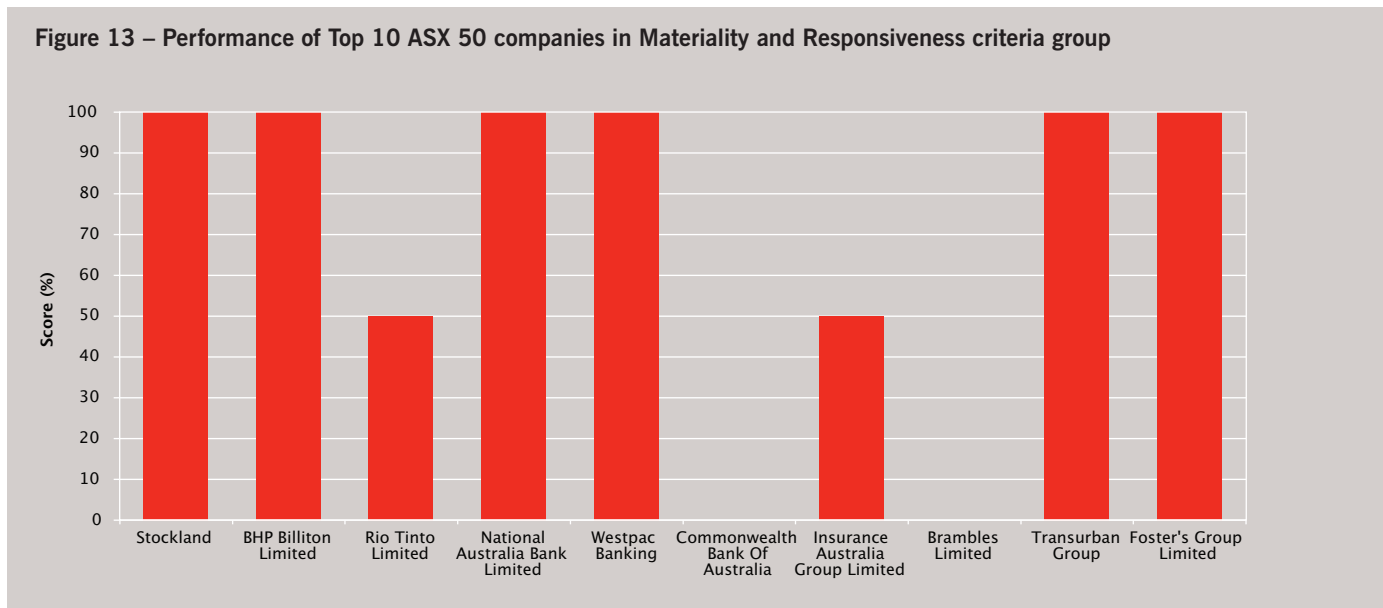
Stockland has clearly stated in its report that there had been no incidents of Code of Conduct violation or corruption during the reporting period as well as no legal anti-trust or anti-competition cases. Stockland discloses its political donations policy and states the amount donated to particular parties. The Fraud Policy also describes how the corruption programme is reviewed on a regular basis by a senior body:

“The Chief Risk Officer will be responsible for reviewing and maintaining the integrity and relevance of the Fraud Control and Awareness Policy and related governance and control processes. Internal Audit or other nominated assurance

providers will be requested at regular periods by the Audit Committee to review the effectiveness and efficiency of the fraud control and governance framework, business processes and internal controls for prevention, detection and control of fraud and business conduct and report its findings and any recommendations to it and the Executive Committee...The policy should be reviewed annually and updated to meet changing business and regulatory requirements and instructions from the Executive Committee and Board of Directors.”

Stockland also gives a detailed overview of the results of its employee satisfaction survey, which indicates that the organisation is responsive to employee needs and concerns, which may be relevant to bribery and corruption issues.

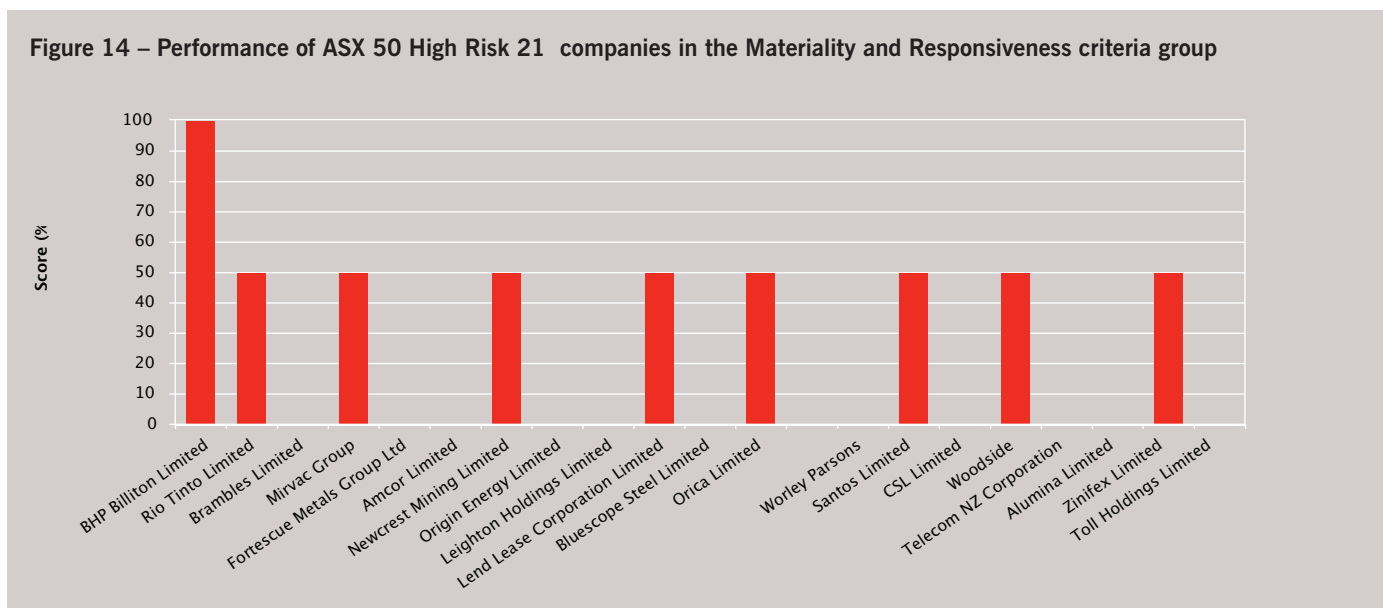
Bribery and Corruption – Materiality and Responsiveness



This criteria group asked whether companies were including the material issues relevant to bribery and corruption in their reporting and if the reporting was responsive to stakeholder concerns, as outlined in the AA1000 framework (this framework provides guidance to users on how to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure greater transparency, effective responsiveness to stakeholders and improved overall organisational performance⁸). The average score across all 50 companies was 27 percent and the Top 10 average

was 55 percent (see Fig 14). Figure 15 shows the performance of those ASX 50 companies operating in high risk sectors.

When following the G3 Guidelines of the Global Reporting Initiative, organisations are required to report on the bribery and corruption indicators as listed (SO2 – SO7). Those companies that did not include a G3 Index with the relevant indicators were scored down, as were those that did not specifically refer to the AA1000 framework in terms of the reporting itself (not just the Assurance statement).



Recommendations

A small number of ASX50 companies reported comprehensively on the issue of countering bribery and corruption. These companies clearly demonstrated the need to mitigate risk and communicate the expectations of behaviour from their employees and stakeholders. However, the majority of disclosures lacked detailed information – this is either due to inadequate communication (ie. companies have excellent anti-corruption programmes in place, but they do not adequately report them publicly) or their procedures themselves are lacking (ie. companies have very little corporate material to disclose). For the former, the first set of the following recommendations is applicable and for the latter, the second set.

Recommendations to improve reporting of countering bribery and corruption

From this review of the ASX 50 companies, it is clear that there is much to be done in reporting of countering bribery and corruption. There were some examples of good practice in certain aspects and there were a number of different approaches adopted. However, the overall picture is one of a need for improvement. Recommendations have been made for Australian companies in order to improve their countering bribery and corruption reporting: there should be more and better disclosures of the following.

- 1 the full suite of anti-corruption programme documents;
- 2 the internal and external communication strategy for the anti-corruption programme;
- 3 the governance structure in place to oversee the anti-corruption programme;
- 4 the risk management and assessment processes of the anti-corruption programme;
- 5 targets (with explanations) to drive improvement in the anti-corruption programme;
- 6 a detailed account of any non-compliance or violations of the code of conduct;
- 7 political donations and charitable contributions (even if none);
- 8 the effectiveness of the anti-corruption programme should be included in the (sustainability) report assurance process.

Organisations should publicly disclose the full code of conduct available to employees, along with any other related policies (such as ethical conduct, business principles, risk management, and corporate governance). Whistle blowing procedures should be described in detail in reporting, including any policy statements, ethics hotlines, independent bodies used and what happens if an incident/complaint is lodged.

Reports should clearly outline how the code of conduct is communicated to employees, to ensure that there is an individual, as well as group awareness of how people should behave and conduct their business. This can be executed with training sessions, HR inductions, focus groups or awareness-raising via the intranet or posters around the workplace. In addition, details of the code of conduct and anti-corruption programme should be communicated externally to ensure a continuous feedback loop is in place to drive improvements. External engagement with stakeholders should be disclosed in annual reporting to discuss this process.

Organisations should outline the governance structure and accountabilities in place to manage and minimise the risk of bribery and corrupt business practices. This can include, for example, board member or committee responsibility, a specific group that is solely in charge of ensuring ethical conduct, compliance officers or risk officers.

Risk management and assessment processes should be described in reports in the relation to the anti-corruption programme – whether this is part of the overall system or a specific methodology that has been set up to address the specific issue.

Any reviews and target setting carried out for the bribery and corruption programme should be clearly explained.

A detailed account of any non-compliance or violations of the code of conduct should be disclosed, including actions made by the company to rectify them (employee dismissals and so on). If there have been no such incidents, this should be clearly stated.

Political donations and charitable contributions should be transparently disclosed including amounts and recipients.

The effectiveness of the bribery and corruption programme and performance should be included in the (sustainability) report assurance process.

Recommendations to minimise the risks of bribery and corruption occurring within companies

Companies can strengthen their anti-corruption programme in the following ways:

- 1 develop a code of conduct or ethics policy that strictly prohibits bribes to be made by, or received by, company personnel and prohibits, or at least regulates, facilitation payments;
- 2 implement a 'gift policy' which defines what a gift is and requires anything over a certain amount to be reported;
- 3 ensure implementation of the code, along with a robust system to encourage and monitor compliance. This includes awareness raising, performance monitoring, reviews and proposed actions plans in the event of any non-compliance;
- 4 implement transparent practices for employing senior executives, remuneration, governance and risk management;
- 5 take part in industry wide initiatives, such as the Extractive Industries Transparency Initiative (EITI), which requires signatories to transparently disclose payments made to foreign officials in an attempt to eliminate the instances of bribery;
- 6 the code of conduct should not only be applicable to direct, permanent employees of the organisation, but also any contractors, agents, suppliers and subsidiaries/business partners with appropriate methods of communication used;
- 7 ensure a management system is in place to manage anti-corruption, minimising the risk of occurrence. If an incident does occur, ensure a robust system is in place to process the incident and put the necessary procedures and reviews into place;

Appendix 1

About the Authors and Criteria

About The Association of Chartered Certified Accountants

The Association of Chartered Certified Accountants (ACCA) has, for many years, been considered a leader in sustainability related issues, including reporting, assurance, research and corporate governance. The Sustainability Reporting Awards (formally Environmental Reporting Awards) was set up initially in the United Kingdom over 15 years ago, designed to highlight and reward best practice approaches to reporting, increase awareness of key accountability and transparency issues and encourage the uptake of reporting. Since then, a number of national ACCA offices have set up their own awards schemes, including in Australia/New Zealand in 2003.

About Net Balance Foundation Limited

Net Balance Foundation Limited (www.netbalancefoundation.org) is a not-for-profit think-tank specifically set up to work with small-to-medium enterprises, research groups, industry groups, professional associations and other not-for-profit groups in the pursuit of sustainable business. The Foundation also undertakes research and consultancy projects on a not-for-profit basis, with the caveat that the research would be made publicly available for the public good. At Net Balance Foundation we believe that the fundamental purpose of business is to grow shareholder value by providing goods and services that reflect market and community needs at affordable prices, and reflecting actual value that incorporates environmental and social costs and benefits. We believe that this approach will contribute to stakeholder value creation in business, thereby reducing reputational risk and preserving the license to operate. More importantly, externalising such costs, we also believe, will only contribute to losing competitive advantage over the longer term. Net Balance Foundation draws its resources from Net Balance Management Group (www.netbalancemanagement.com), a sustainability advisory and assurance firm.

Appendix 2

Acknowledgements

Michaela Campbell, ACCA Australia and New Zealand

Rachel Jackson, ACCA UK

Vicky McAllister, ACCA UK

Kate Bezuidenhout, Net Balance Foundation

Cory Jemison, Net Balance Foundation

Terence Jeyaretnam, Net Balance Foundation

Nicole Joffe, Net Balance Foundation

Ross Wyatt, Net Balance Foundation

Appendix 3

Notes

- 1 The first three reports were on stakeholder engagement, climate change and human capital management, which were published in March 2007 and May 2007 and January 2008 respectively, and freely available at http://www.netbalancefoundation.org/latest_research.html
- 2 Transparency International publishes an annual “Global Corruption Perception Index (GCPI)”, which rates countries on their level of corruption, according to public agency officials (see www.transparency.org)
- 3 Uncovered in early 2006, Australia’s wheat exporter AWB was found to have made payments to the Iraqi Government in return for wheat contracts as part of the ‘Oil for Food’ scheme
- 4 See www.ftse.com
- 5 See www.unglobalcompact.org
- 6 See www.globalreporting.org
- 7 <http://www.lbg-australia.com>
- 8 See www.accountability21.net

A study by the Association of Chartered Certified Accountants
Published August 2008

ACCA Australia and New Zealand

Suite 707 109 Pitt Street Sydney NSW 2000

tel: +61 2 9233 1242 fax: +61 2 9233 1245 ausnz@au.accaglobal.com www.accaglobal.com

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