

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

NAB

NAB72QW: In his sentencing remarks relating to Rosemary Rodgers criminal activities while Chief of Staff at NAB, Judge Paul Conlon noted: 'I find it absolutely staggering that this fraud were not detected by some appropriate system of internal auditing by NAB'.

(a) Would NAB's internal accountability and governance mechanisms have discovered this activity without the tip off of an external whistleblower?

(b) How were the accountability systems around NAB's internal budgeting developed?

(c) Why did they fail?

(d) Have shareholders communicated similar feelings to those expressed by Judge Conlon to the Board and Executive?

(e) Are the Board and executive team satisfied that internal governance and accountability has been adequately prioritised in NAB's corporate culture?

(f) Do NAB human resources protocols have any safeguards or 'health checks' to identify – both on entry and throughout a career – staff at risk of compromising fiscal rigour for personal gain?

Answer

a) Would NAB's internal accountability and governance mechanisms have discovered this activity without the tip off of an external whistleblower?

NAB is not prepared to speculate on whether this would have occurred. However, NAB has previously publicly acknowledged that the controls in the Office of the CEO, at the time of the fraud, were not adequate and further, that the usual controls that operated in other areas of the bank were not (at that time) operating in the Office of the CEO. Regard must be had to the circumstances of the fraud. As Chief of Staff to the CEO Ms Rogers was in a senior and trusted position and was found to have used her delegated authority, seniority and influence in an improper manner, and recently sentenced for her role in a major fraud against the bank. That this fraud was brought to light by an anonymous whistleblower shows the value of having a trusted whistleblower system in place and that it works.

b) How were the accountability systems around NAB's internal budgeting developed?

NAB's internal budgeting practices include the development of an annual financial plan which is allocated at a business unit level. The relevant business unit executive has responsibility for

the management of the business unit's expense plan and is accountable for the costs incurred in that business. On a monthly basis the expenses incurred are reviewed and compared to the business unit plan by Finance in consultation with the relevant executive. The monthly review includes a review of any variations in spending compared to the business unit plan, with the business unit executive needing to explain any such variation.

c) Why did they fail?

They failed for a number of reasons including because:

- At the time of the fraud the controls in the Office of the CEO were not adequate and the usual controls that operated in other areas of the bank were not (at that time) operating in the Office of the CEO;
- Ms Rogers managed the expenditure of the Office of the CEO and in doing so justified the expenses incurred;
- Ms Rogers' delegated authority as Chief of Staff was \$20m; and
- the manner in which the fraud was perpetrated meant that Ms Rogers was able to avoid internal oversight.

Having identified these failings we made significant changes to strengthen the controls in the Office of the CEO, including significantly reducing delegations and introducing additional checks on expenses.

Steps taken to strengthen controls include:

- Internal audit undertaking a review of the controls in the Office of the CEO relating to third party vendor selection and contract management including invoice processing and event management. A review of all contracts then managed by the Office of the CEO was undertaken to ensure compliance with the Group Procurement Policy.
- NAB's Group Procurement Policy was updated and now provides that all procurement and supplier management activity must follow approved processes including supplier due diligence (which includes ESG risk assessment), a mandated selection process, and the use of approved systems. Further, Business Units must engage NAB's Strategic Sourcing Team when planning to procure any goods and/or services.
- NAB's procurement risk and control environment continues to be reviewed on an on-going basis to take account of new and emerging risks as the supply chain and external supply markets vary over time. In 2019 NAB implemented Sourceline (Source to Pay) system which improves transparency, centralises sourcing records, and improves spend analytics across NAB.
- All employees are now required to undergo annual training to ensure adherence with the policies relating to gifts and expenses.

Since 2018, we have also seen a nearly 40% increase in the size of the team responsible for investigating internal fraud, corruption and serious misconduct concerns.

d) Have shareholders communicated similar feelings to those expressed by Judge Conlon to the Board and Executive?

Shareholders have raised questions about this matter at the Annual General Meeting.

The Board and Executive Leadership Team have explained to shareholders, as well as staff and customers more generally, that the controls in the Office of the CEO at the time of the fraud were not adequate. They have also supported the action NAB has taken to investigate the issue and the changes were made to strengthen the controls within the Office of the CEO and the improvements which have been made more broadly across NAB, as set out above.

e) Are the Board and executive team satisfied that internal governance and accountability has been adequately prioritised in NAB's corporate culture?

The Board and ELT are satisfied that internal governance and accountability have been adequately prioritised in NAB's corporate culture.

NAB CEO, Ross McEwan, has made clear his expectations across the NAB leadership team in this regard, and the Executive Leadership Team has in turn provided clear directives regarding accountability and expectations to their teams.

In 2019 and 2020, NAB's Risk Division and People and Culture Division, with Board engagement, undertook a review to better understand the root causes of cultural traits identified in NAB's 2018 Self-Assessment and the actions needed to address these. This work led to a range of actions which strengthened governance and accountability across NAB. Specific actions have included:

- The implementation of an enhanced three lines of defence model which is adequately resourced and has clear separation of accountability and independence between management, monitoring and oversight;
- A complete refresh of NAB's corporate values and behaviours, which make clear that accountability for decisions is a key element of NAB's corporate culture;
- An update of NAB's Code of Conduct and consequence management frameworks, which apply to all employees and the Board of Directors to drive clarity on expectations and acceptable behaviours;
- Enterprise wide mandatory training as well as ongoing communication and reinforcement of the Speaking Up program for all employees promoting NAB's Whistleblower Program as a safe harbour to raise concerns and issues, fostering and embedding a culture where employees are equipped and supported to raise issues; and
- An update to NAB's expense management policy, and gifts and entertainment policy including a new Financial Management Delegations system and review of all management expenditure authority levels.

f) Do NAB human resources protocols have any safeguards or 'health checks' to identify – both on entry and throughout a career – staff at risk of compromising fiscal rigour for personal gain?

NAB human resources protocols include pre-employment probity checks at commencement of employment and ongoing probity for certain roles.

New employees

NAB conducts probity checks on all new employees before they are onboarded to NAB through our independent third-party background service provider, Precise Background Services.

The types of checks performed are determined by the level and seniority of the role. The more senior the role, the more extensive the checks.

Ongoing Probity

NAB conducts regular post-employment probity screenings for:

- Responsible Persons who need to undertake probity and a self-attestation before being appointed to a Responsible Person position. Positions include non-executive directors of the NAB Board, the Group CEO, Executive Leadership Team, other Accountable Persons (under the Banking Executive Accountability Regime), Executive Group Treasurer, Executive Internal Audit, divisional Chief Risk Officers and other members of the Risk Leadership Team. The fitness and propriety of Responsible Persons are reassessed annually through a self-assessment, and probity every two years. If a person is assessed at any time as not fit and proper, the reasons for this decision are documented and the person is not appointed to or is removed from the Responsible Person position;
- Responsible Managers undergo a fit and proper self-assessment annually, and probity every two years. NAB relies on Responsible Managers to ensure NAB competently provides activities authorised by the AFSL and ACL licence;
- Employees with access to specific systems (e.g. PEXA for property settlements, and SWIFT for payments);
- Employees who are promoted to an executive role; and
- Contractors who secure a permanent position at NAB.

Controls outside of HR protocols

Outside of the probity processes, other mechanisms to prevent and detect behaviour that compromises fiscal rigour for personal gain include:

- NAB's Conflicts of Interest policies and procedures, which include self-monitoring and self-disclosing any conflicts of interest in NAB's Conflicts of Interest Register.
- The Financial Crime team operates capabilities to detect suspicious transactions and events associated with employee accounts along with a range of other tools to monitor compliance with the law, regulations and NAB Group policy.