O APRA

25 March 2024

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Dear Mr Hill

Inquiry into probity and ethics in the Australian public sector

Thank you for your letter dated 26 February 2024. APRA welcomes the opportunity to provide further information to the Joint Public Accounts and Audit Committee (the Committee) for the Inquiry into Probity and Ethics in the Australian Public Sector.

In APRA's appearance before the Committee on 8 September 2023, we outlined the frameworks and policies which operationalise probity and ethics across the organisation. This submission expands on our evidence before the Committee and responses to subsequent Questions on Notice, providing deeper insight into the culture which APRA seeks to foster as an organisation. Our submission has tried to address particularly the issues you flag in your letter - the definition of culture and how entities can best build a culture that fosters integrity and probity; metrics and ways by which it is measured; and how an agency and its leaders can and should be accountable for its culture.

APRA is continually evolving our approach to integrity and probity, both through a range of activities (as outlined in Annex A) and through a heightened focus on fostering a culture of probity, ethics and integrity, creating positive drivers for behaving consistently with these values.

Defining and building culture

We agree with the Auditor General's remarks, as noted in your letter, that ethical behaviour and integrity are not only about compliance with mandatory requirements. APRA has highly capable and engaged staff who are committed to delivering our purpose and serving the community. Cultivating an agile and engaged organisation to ensure that we remain fit for the future is a strategic priority for APRA. Rather than being reactive and viewing probity as a compliance exercise, APRA seeks to be proactive in fostering a culture of integrity.

APRA's values are embedded in our Code of Conduct and are at the heart of our organisation's culture. They are celebrated and promoted at all levels of the organisation, reinforcing their importance. These values are:

- **Integrity** – we act without bias, are balanced in the use of our powers, and deliver on our commitments.

- **Collaboration** – we actively seek out and encourage diverse points of view, to produce well-founded decisions.

- **Accountability** – we are open to challenge and scrutiny and take responsibility for our actions.

- **Respect** – we are always respectful of others, and their opinions and ideas.

- **Excellence** – we maintain high standards of quality and professionalism in all that we do.

APRA has no tolerance for bullying, discrimination, harassment and misconduct, or failure to be inclusive of diversity. APRA also has no tolerance for failing to prevent, detect and remediate instances of fraud, and low tolerance for inadequate business outcomes due to poor operational and governance processes. This is reinforced in our Risk Appetite Statement and through a number of channels within the organisation.

As well as looking at our own culture, a key part of APRA's supervision is to understand the culture of regulated entities and how that culture affects an entity's management of risk. A cornerstone of this relates to APRA's CPS 220 which sets out expectations for regulated entities on risk culture, specifically *"the Board must ensure that: ... it forms a view of the risk culture in the institution, and the extent to which that culture supports the ability of the institution to operate consistently within its risk appetite, identify any desirable changes to the risk culture and ensures the institution takes steps to address those changes."*

Following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, APRA undertook a program of work into governance, culture, remuneration and accountability. APRA has strengthened its framework and supervisory practices to drive governance, culture, remuneration and accountability practices in the entities it regulates such as implementing BEAR, now implementing FAR, establishing CPS 511 on remuneration practices, publishing a framework called the risk culture 10 dimensions for assessing the risk culture of entities and engaging in a heightened supervision approach that has led to a range of risk remediation plans using our 'constructively tough' approach to transform risk practices in entities.

Measuring culture

APRA's Integrity Review Group formed in the last 12 months has been a step change to drive improvements in insights and awareness of integrity related risks and also improvements in the oversight and governance of reporting to the Board. The Integrity Review Group receives reporting from data points across the organisation including Whistleblowing, Public Interest Disclosures, Risk and People and Culture incidents. APRA recently undertook an initial assessment of APRA against the APSC Integrity Metrics Maturity Model. APRA's rating indicates stronger maturity in some areas such as governance and performance management, with opportunity for maturity uplift in other areas. The Integrity Review Group is committed to uplifting APRA's integrity practices to reach the Optimised maturity rating. Insights or thematic observations are then reported to both APRA's Executive Board and its independent Audit and Risk Committee.

As an agency covered by the Public Interest Disclosure Act (PID Act), APRA has channels whereby individuals both inside and outside of APRA can raise allegations (including anonymously) regarding the conduct of APRA and its staff. APRA encourages and supports the reporting of wrongdoing by current and former public officials in accordance with the PID Act and will actively support and protect persons who make such disclosures. APRA seeks to ensure that the highest standards of ethical and accountable conduct are maintained. When a public interest disclosure (PID) is received, we take it very seriously, will typically appoint an external investigator and see any recommendations made as an opportunity to improve. The number of PIDs received by APRA is reported to the Commonwealth Ombudsman and included in its annual report.

APRA assesses itself against the integrity maturity framework published by the National Anti-Corruption Commission (NACC). We are continuing to enhance our view of integrity and probity in APRA with the benefit of the resources and knowledge shared by the NACC. Including under the oversight of the Integrity Review Group which supports how we track, report and promote integrity and probity.

APRA gathers data that can indicate how the organisation's culture fosters ethical behaviour. APRA can then identify areas where the organisation can improve and promote best practice. APRA recently conducted its annual Engagement Survey and will use these insights to continue to improve APRA. The most recent Engagement Survey showed that APRA has a highly engaged workforce, with a strong engagement score of 80 percent favourable this year, demonstrating how committed people feel towards their work, colleagues and the organisation.

APRA also measures staff perceptions relating to risk culture more specifically. APRA conducted a Risk Culture Survey on its entities and in 2021, APRA conducted the Risk Culture Survey on itself, to help form a view on areas for development. A subset of these risk culture questions was embedded into the APRA engagement surveys in 2022

and 2023, including to measure specific questions identified as areas of development in the 2021 comprehensive survey.

While survey results of course suggest areas for continued improvement, there are some clear areas of strength that give APRA confidence it has a sound risk culture. For instance, APRA's latest engagement survey showed that 96% of staff take their risk responsibilities seriously. In addition, there have been marked improvements in employee sentiment when comparing results for specific questions from previous surveys, regarding willingness to call out mistakes, and sufficient resources to assist with the identification and remediation of risks. This suggests that efforts to prioritise certain areas in risk management have had a positive influence on employee attitudes towards APRA's risk management practices, reflecting the focus on continuous improvement outlined above.

Measuring leadership and team strength is also achieved through various psychometric tools such as Hogan assessments both at an individual and team level. These are leveraged to build strong teams with high trust and integrity. We also utilise 360 degree feedback for leaders on a rolling basis, to ensure we are measuring their impact on culture.

Embedding accountability for culture

There are several mechanisms used to embed and ensure accountability for our cultural values and associated behavioural expectations within APRA.
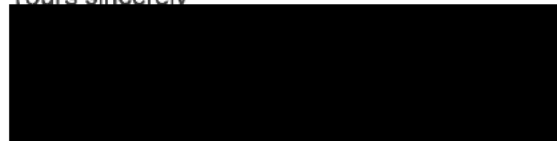
First, we have clear and defined accountabilities from the top down as well as a suite of accountability mechanisms (flagged in our Submission to the Committee last August). The APRA Chair, as APRA's Accountable Authority, is responsible for establishing and maintaining appropriate systems for both risk oversight and internal control within APRA.[1] In addition, as noted at APRA's appearance before the Committee last year, APRA has embedded use of the RACI model (responsible, accountable, consulted and informed). The RACI model aims to make responsibilities and accountabilities clear.

Second, we have clear expectations in our performance frameworks. APRA's Capability Framework is central to recruitment, promotion, performance and development activities. This framework articulates expected standards of performance and behaviour for APRA's people. At the foundational level, APRA's people are required to demonstrate sound risk management, honesty, owning up to mistakes, responsiveness to feedback, continuous improvement mindset, and contribution to team culture. Where people are not demonstrating these capabilities, formal performance management or consequence management (as appropriate) is applied. At the leadership level, leaders are required to guide the team in risk management and constructive challenge, and to be resolute in expecting integrity in all interactions.

Finally, through positive reinforcement via quarterly and annual APRA values awards which are explicitly linked to the values and are sponsored at an APRA Member level, and via division-level recognition awards which reward individuals who have gone above and beyond in their day jobs to move APRA forward in achieving its strategic priorities.

We trust the submission will be of assistance to the work of the Committee.

Yours sincerely

John Lonsdale
Chair

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[1] Public Governance, Performance and Accountability Act 2013, section 16.

Annex A – Activities focused on probity

Activities	Description
Speak Up campaign	APRA's ongoing 'Speak Up' campaign is a core initiative designed to reinforce and strengthen the desired mindset (knowledge of APRA expectations), behaviours (accountability and responsibility), and actions (identify, escalate, remediate) that foster a culture where our people feel safe and empowered to proactively raise issues or concerns, and have confidence that timely actions are taken to address the underlying causes. On top of ongoing campaigns to reinforce 'Speak Up', APRA continues to improve the ways staff can raise issues, including channels where staff can engage directly and anonymously with either the risk or people and culture functions. Once triaged, the teams engage with the relevant teams for remediation.
Senior leadership team communications	To increase transparency and reinforce the intent of the policies, as well as to promote a positive and open risk culture, APRA's senior leadership team communicates regularly with staff: not only to remind them of both the probity related procedures (e.g., declaring conflicts of interest), APRA's expectations, why it is important (both real or perceived probity risks) and its impact on APRA's reputation; but also celebrating positive behaviours through Divisional awards and APRA-wide values awards.
Code of Conduct	Operationally, right and proper behaviour is also supported through APRA's Code of Conduct. APRA employees must review the code annually and acknowledge that they have read and understood the expected standards of conduct.
Conflict of interest declarations	APRA staff are required to declare conflicts of interest when potential new conflicts arise and on an annual basis.
Annual training and development sessions	Annual training and development sessions are run for all people on a variety of culture and integrity related topics: mandatory annual risk and probity compliance training; mandatory leader training on coaching for performance and behaviour; SBS core inclusion modules; Respect@APRA mandatory training for all people on anti-discrimination; positive duty on managing sexual harassment and psychosocial risks in the workplace; optional specialised courses on Crucial Conversations; Constructive Challenge; and specialised leadership development programs with content on leadership skill and accountability for culture. In addition, APRA has a thorough onboarding process for new staff to enable them to understand their requirements.
Reporting and transparency	In its publicly available Annual Report, APRA provides transparency on a number of areas related to probity. These include: - details of contracts which are not reported on via other channels; - corporate governance; and - fraud prevention and controls.