

30 November 2018

Confidential and subject to legal professional privilege

Mr. Bradley Johnstone
Manager Supervision — Superannuation
Specialised Institutions Division
Australian Prudential Regulation Authority
GPO Box 9836
MELBOURNE VIC 3001

Dear Mr Johnstone

AUSTRALIANSUPER PTY LTD – RISK GOVERNANCE WRITTEN ASSESSMENT

I refer to the letter from Mr Mark Adams to the Directors of AustralianSuper Pty Ltd dated 28 June 2018 requesting a Board endorsed written assessment against the issues identified in the Prudential Inquiry into the Commonwealth Bank of Australia.

The Board of AustralianSuper has considered the issues identified in the Inquiry at its meetings in May, June, August and October. A Report on the current position and planned future activity is attached to this letter noting that a number of activities were in flight prior to the release of the CBA Report.

The work to produce this Report was led by the Head of Governance who has had the full support of the Board and Executive Team and full access to all relevant staff and documents. Having this review led by a relatively new internal senior manager has enabled the findings to be drawn from observations over an extended period of time and through interactions at all levels of the organisation. This has provided the Board with additional confidence that the assessment is thorough and valid. Where relevant the views and constructive challenge of third parties (e.g. internal and external audit) have been sought in conducting the assessment.

In summary, the Board believes that the risk governance of AustralianSuper is generally strong and continues to advance. The Board acknowledges however that there are some learnings from the report which when implemented will further enhance the risk governance practices of the Fund. Furthermore there are some extra activities planned which will provide additional and ongoing insight into the strength of risk governance. The Board is of the view that many of these activities are not one off activities but rather a way of operating, and is committed to the sustainability of these activities in order to ensure that good governance, strong culture and appropriate accountability is embedded across the business.

We look forward to your feedback on the attached Report and would welcome the opportunity to discuss the Report with you.

Yours sincerely



HEATHER RIDOUT
Chair

cc Mr Ian Silk, Chief Executive

Attachment: Risk Governance Written Assessment Report

Risk Governance Written Assessment Report

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Appendix A Detailed Assessment of Risk Governance at AustralianSuper

1. EXECUTIVE SUMMARY

The Board of AustralianSuper in conjunction with Management have undertaken an assessment of the risk governance practices within AustralianSuper with reference to the CBA report. The purpose of this assessment was to:

- form a view on the strength of risk governance;
- identify what additional action is required to enhance or provide further insight into the strength of risk governance across AustralianSuper; and
- agree a prioritised work plan of activities to ensure governance, culture and accountability is embedded across the business in a sustainable manner.

In conducting the review the Board was mindful of APRA's request that the assessment should reflect depth, challenge and insights as well as the need to ensure that real value was gained from the exercise rather than it being seen as a pure compliance requirement. To that end the process was largely internally driven by a relatively new senior manager with external parties consulted on specific areas where it was considered that they could provide expert input. The review was not conducted as an audit, however as part of the exercise relevant independent reviews were considered such as the outcomes from audits. The views of both internal and external audit were canvassed in preparing this report.

Based on the work performed to date the Board is of the view that the risk governance practices across AustralianSuper are generally strong although work continues across the organisation to further enhance our practices. Pleasingly the review has not found any areas in need of urgent or immediate work.

2. PROCESS UNDERTAKEN

Upon the release of the CBA Report the AustralianSuper Board at the request of the Chair commissioned a review by Management of the learnings from the Report for AustralianSuper. Following receipt of the APRA request for a written assessment of risk governance on 28 June 2018, the review was expanded to specifically ensure that it met APRA's requirement that the assessment reflect depth, challenge and insights.

Representatives from Oliver Wyman who were involved in the preparation of the CBA Report presented to the August Board Meeting on their insights. Further discussions were held by Management with another key author of the Report who is now working for the Fund's internal auditor. These interactions provided valuable guidance on the process and assistance in the identification of key focus areas for AustralianSuper.

The CBA report and the detailed recommendations were considered at the Executive Committee on 16 July 2018. Further discussions were then held with relevant Executive Committee members on specific recommendations and findings.

The Board considered the assessment of the AustralianSuper practices in respect of each of the 35 recommendations and the identified work required (both new and inflight) at its August 2018 Meeting. A subset of these recommendations relating to risk and compliance were considered by the Audit, Compliance and Risk Management Committee (ACRMC) at its meeting on 18 July 2018. The Board also reconfirmed its approach to the assessment at the August meeting agreeing to continue having this activity led by an internal resource.

Following the August meeting, the detailed CBA Report was again reviewed to identify any further insights in relation to the 60 plus findings contained in the Report having regard to the practices of AustralianSuper. The observations and resultant activities were then grouped under the broad chapters contained in the Report of:

- Governance
 - Role of the Board
 - Senior Leadership Oversight
 - Risk Management and Compliance
 - Issue Identification and Escalation
 - Financial Objectives and Prioritization
- Accountability and Remuneration
- Culture and Leadership

An assessment was made for each chapter in the context of AustralianSuper and a rating assigned using the following scale:

- Strong – appropriate processes in place and evidence available to support embeddedness
- Further work required – some key processes not in place or evidence not yet available to support view of embeddedness
- Immediate work required – key processes not in place

Having discussed the CBA Report in the context of AustralianSuper, considered the work already underway within AustralianSuper and the potential new actions identified, the Board then determined the most important focus areas for AustralianSuper.

Section 3 of this Report summarises the assessment results and Section 4 summarises the key focus areas. The detailed analysis in respect of each of the 60 plus findings and 35 recommendations is contained in Appendix A.

In completing the analysis the Board was mindful of the fact that whilst the Report was specifically prepared in respect of CBA - which is a far more complex and significantly larger financial institution than AustralianSuper - there were learnings which are relevant for AustralianSuper. It was therefore important that each finding be carefully considered in the AustralianSuper context to consider relevance and potential improvement opportunities having regard to current practices and planned activities.

Independent Challenge

The Board considered the extent to which the review could be conducted in-house versus having an external party conduct all or part of the review. A new Head of Governance commenced with the organisation on 26 March 2018 and it was agreed that she was well placed to lead the review. Given her limited tenure she could challenge existing processes and provide new insights, and indeed this has happened. Further, having the review led internally has enabled the findings to be drawn from observations over an extended period of time and through interactions at all levels of the organisation. This has provided the Board with additional confidence that the assessment is thorough and valid.

The Board was also keen to ensure external parties were engaged where they could provide specific expert skills. As noted earlier, in undertaking this review the view and input of key governance service providers was sought and included (including internal and external audit).

3. ASSESSMENT RESULTS

Based on the work undertaken and using the rating scale outlined above the Board has formed the following view:

	Rating	Summary Rationale
Governance		
Role of the Board	Strong	Whilst there are strong and consistent practices in place that have served the Fund well, there are actions that can be taken that would further enhance the effectiveness of the Board.
Senior Leadership Oversight	Strong	The Executive has been relatively stable for some time. The recent appointment of 2 new Group Executives increases the level of challenge and insight. In addition, there are actions that can be taken to further enhance senior leadership oversight.
Risk Management and Compliance	Further work required	There has been considerable uplift in risk and compliance processes in recent years which have established a strong foundation. However we recognise that this is an area where there is further work required as we continue to develop our 3LOD model and a mindset of “continuous improvement” is important.
Issue Identification and Escalation	Further work required	Foundation processes and practices in place but further opportunities exist to improve practices.
Financial Objectives and Prioritization	Strong	Strong processes in place which clearly prioritise risk matters.
Accountability	Further work required.	Processes in place but updates required.
Remuneration	Strong	Remuneration structure considerably simpler than CBA. Recent changes to the Remuneration Policy have enhanced the strong foundation and promoted even more alignment with the members’ first culture.
Culture and Leadership	Strong	There is strong commitment to the purpose and values across the organisation. Work is well advanced in the development of a culture dashboard.

Note: an assessment of “Strong” does not mean that no action is required and Appendix A of this report details work required.

The above assessment was formed having considered the detailed analysis in Appendix A which considers the CBA findings and recommendations, the observations and insights for AustralianSuper, the evidence upon which the assessment was formed and any actions required in respect of the finding.

4. *FOCUS AREAS*

Having regard to the above analysis, especially areas where a rating of “Further work required” was assigned, the following areas have been determined as key areas of focus:

- Complete roll out and embedding of 3LOD across Fund including development of a formal line 2 assurance plan (recommendations 9 and 12);
- Continue to enhance risk and compliance capability across lines 1 and 2 through recruitment and training (recommendation 13);
- Define and agree appetite for “can we vs should we” (recommendation 21) having regard to findings from Royal Commission and the increasingly higher expectations of regulators and the community;
- Planning team for International Office Program to consider learnings from CBA regarding clarity of accountabilities for risk and compliance (Finding 6.4); and
- Develop protocols for the escalation and reporting of incidents and provide training to staff (Finding 4.1).

These areas are highlighted in red in Appendix A. It should be noted that the other actions outlined in Appendix A will continue to be addressed concurrently and tracked accordingly. These actions include:

- Enhancements to the reporting provided to the Board, ACRMC and Executive Committee;
- Enhancing the reporting link between the Board and Committees and between Committees;
- Developing a conduct risk strategy and associated controls and key risk indicators; and
- Reviewing the decision making framework across AustralianSuper.

5. *MONITORING AND REPORTING*

Quarterly reports will be provided to the Board (via the ACRMC) on the progress to address the key focus areas in section 4. At this time consideration will also be given to whether additional activities are required in these areas including whether a further assessment of the “embeddedness” of governance, culture and accountabilities needs to be undertaken.

As noted in section 4 the other actions outlined in Appendix A will also be tracked by Management to ensure completion.

6. *CONCLUSION*

This Report has been prepared in response to the APRA request dated 28 June for a Risk Governance Written Assessment. Whilst the Board is generally comfortable with the risk governance across the organisation it acknowledges that there is still (and will always be) work to do. The Board is also mindful that this is a point in time exercise and that it needs to be constantly vigilant to ensure that a strong risk governance framework is maintained.

There is a lot of other activity currently across AustralianSuper which is seeking to further improve the Fund’s processes and practices including those relating to governance, culture and accountabilities. Some of this work is in response to regulatory expectations whilst other work is a result of our continuous improvement focus and intention to operate at best practice having regard to our relative size in the superannuation industry and Australian market. This is particularly important given our strategic intention to expand our global footprint.

Finally the Board is determined not to be complacent despite the expectation that no adverse findings are anticipated in relation to AustralianSuper at the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. To this end the Board is seeking to learn from the experience of others and from the preparatory work performed within AustralianSuper and apply those learnings to further enhance the processes across the organisation. This work would reasonably be expected to improve the risk governance even further in the future.