

Governance requires proactive stewardship

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'Me Three ... are we conspiring to be silent?'

Enough, it is time. Time to be bold, stand up, speak up and lead by example.

New Zealand recently dropped from 1st equal to number 2 on the Corruption Perception Index. Is this the start of a downward spiral due to complacency?

Organisational moral compass

We all have our own individual ethical and moral compasses and are comfortable within these boundaries. But do we know, understand and live within our own organisation's ethical and moral boundaries?

Recent reports would imply that individually and organisationally we do not.

One such finding is from the Final Report of the Australian [Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry](#). Both the Reserve Bank of New Zealand and the Financial Markets Authority then reported on similar sectors in New Zealand.

These reports put conduct and culture under the spotlight. They challenge Boards, executives, managers and employees of financial organisations to live by the bounds of their organisation's moral and ethical compasses and to act with honesty, integrity and transparency. Boards, executives, and managers must lead by example and Governance Boards are expected to provide oversight.

Do those in stewardship, regulatory, oversight and assurance roles assume too much? Understandings cannot be assumed, of the underlying issues and the drivers for poor conduct and weak, arrogant cultures that are mis-aligned with the organisations *stated* moral and ethical boundaries.

How often do we hear: “There are no conflicts, bullying, mis-conduct or fraud here”; “but look what happened at ‘that’ (NAB, CBA etc) financial institution”; “look over there (Australia – we are not Australia, we are different/better)”.

But are we different/better? Do we have the luxury of sound evidence and examples to demonstrate that we are better? Or are we sweeping things under the carpet? Will we soon have the trail of blemished careers, good names tarnished, and confidence lost in the ‘court’ of public perception?

Board responsibility

The New Zealand Stock Exchange’s new listing rules published in January have upped the accountability and responsibility of Boards to “Know or ought to have known”. Where can Boards put high demands on those providing assurance (executives and assurance functions alike)?

As the organisation steward, can Boards state explicitly that they are comfortable that none of the examples below have ever occurred while “cart blanche” ignorantly believing what they are being told? Issues include but are not limited to:

- bullying
- conflicted interest or conflicted (inappropriate) relationships
- no leading examples of good conduct are publicised and reinforced
- an environment that lacks information and support for ‘speaking up’ whereby calling attention to issues is unsafe for fear or retribution.
- not acting on, taking seriously, or adequately following up allegations of bullying and inappropriate behaviour.

Conduct and culture reviews are occurring across the financial sector, driven by the current regulatory reporting. An independent review must be undertaken in organisations where these issues have occurred, or have been raised. Such instances include performance feedback, exit interviews or other means. The New Zealand market is small. Individuals need good references, unblemished records and re-employment. They are mindful and fearful of repercussions. For these reasons, it takes courage and support for individuals to speak up.

Independent assurance function is critical

It’s important that an organisation’s assurance function has a direct reporting line with the Board’s Audit Committee chair. In addition, adequate or equivalent qualifications and skill to undertake assurance reviews are required.

Any review undertaken by an organisation's own people from the same culture, is not sufficiently independent. They are conflicted and if the result is 'clean', the review will do further harm to the culture and weaken organisational courage to speak up.

Boards should routinely see reports on;

- human resources turnover
- gaps in knowledge, skills and capability
- exit interviews
- human resource issues management
- anonymous internal complaints
- personal grievances and employee disputes
- customer complaints including a routine review of the process for receiving and responding to complaints.

Assurance providers have a huge role to play in assisting good stewardship. Regulators, supervisors, internal assurance or third-party assurance providers are just some of the options available to Boards and management.

Who checks the checkers?

So, who checks the checkers? Are assurance providers held to account and are their managers professionally sceptical enough to challenge, even where there are particularly positive results?

Do assurance providers have the right resources, knowledge, skills and capability to provide assurance? Are they appropriately qualified? Do they actively participate in their profession and undertake relevant continuing professional development, to keep abreast of upcoming issues? Can they provide the Board with valuable insightful information?

Questions to ask about assurance providers:

- are they subject to independent quality assurance reviews?
- do they complete their annual plan of work?
- are their reports conflict-free, accurate, balanced, and delivered on a timely basis?
- are the reports followed up by management on agreed actions to be monitored by the providers/stewards?

The key to quality assurance is that everyone involved is transparent, open and objective.

Quality assurance relies on documentation of what you did, to demonstrate what you have done. Disclose, disclose, disclose!

Take responsibility for organisational culture

Take responsibility – own your issues and be transparent on how you address these. Follow the lead of our Prime Minister who has recently owned up to the poor attendance of her staff at Select Committees. We now expect to see what was done to rectify this, what explanations have been made, what apologies were given and how processes were changed so it won't happen again.

The opportunity to be on the front foot and not waiting to be 'outed', is now.

Transparency International New Zealand (TINZ) will launch its Financial Integrity System Assessment (FISA) later this year. FISA is everyone's opportunity to be transparent, disclose and be able to provide evidence on their organisational integrity.

So, it's timely for assurance providers to find out what's required, take the opportunity as to how FISA can be used to best effect in your organisation. Get involved now!