

**House of Representatives Standing Committee on Economics
Review of the Four Major Banks (Second Report)
National Australia Bank (NAB)**

NAB56QW: Does the Bank consider it sufficient to have a review of risk management frameworks “at least every three years” in the context of recent scandals. If so why?

Answer

The Group’s Risk Management Framework (RMF) articulates the Group’s approach to managing risk. It is the totality of systems, structures, policies, processes and people that manage all material internal and external sources of identified material risks facing the Group.

The RMF supports a proactive approach to risk management across the Group through:

- Identifying, analysing and understanding each of the material risks at all levels of the Group.
- Employing appropriate strategies, policies, effective operating controls and other mitigants.
- Applying appropriate balance to understanding our historical risk performance with our potential risk performance.
- Providing reliable and meaningful risk information (i.e. reporting) to decision-makers.
- Ensuring adequate oversight of the risk profile and effective operation of the RMF.

Compliance with, and the effectiveness of, the RMF is attested to by management through the semi-annual Requisitions on Management process which is reported to the Board Audit Committee.

NAB’s Internal Audit function also performs reviews of compliance with, and effectiveness of, the Group’s RMF and internal control environment. This includes assessing compliance with the requirements in APRA CPS 220.

In accordance with APS 310 (Audit and Related Matters), NAB’s external auditors complete an annual prudential review which includes assurance over:

- APRA Prudential Requirements
- APRA’s Financial Claims Scheme

In addition, the external auditors provide a separate report to ASIC covering NAB’s compliance with its Australian Financial Services Licence (AFSL).

A more comprehensive independent review of the appropriateness, effectiveness and adequacy of the RMF is undertaken at least every three years (under APRA CPS 220) and results are reported to the Board Risk Committee (BRC) and Principal Board. The independent review report is also provided to APRA.

The first comprehensive independent review of NAB’s RMF was completed in 2015. While not required under CPS 220, NAB engaged Ernst & Young to perform a limited scope review of management plans, actions and progress in addressing the findings from the 2015 comprehensive review. The findings of the review were reported to the BRC in September 2016.

NAB believes that the existing requirement that a comprehensive independent review be completed every three years is appropriate given the extensive scope and nature of other independent reviews which are undertaken on an annual basis. As occurred in 2016, in interim years, NAB may decide to engage its external auditor to perform limited scope or targeted reviews to support the annual CPS 220 Declaration on Risk Management.