



# 2019 NEW ZEALAND FINANCIAL INTEGRITY SYSTEM ASSESSMENT (FISA)

Assessment Methodology and Questions

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Thanks to all those involved in providing feedback. See back page.

## FOREWORD

The 2019 New Zealand Finance Integrity System Assessment (FISA) is the first ever assessment of the integrity systems of any country's financial system. It is addressed to financial organisations<sup>1</sup> which include all deposit-taking organisations, lenders, insurance companies and their regulators. This evidential assessment, including a voluntary self-assessment for financial organisations, covers the financial system. Financial organisations know that public and international trust is vital for New Zealand's future and that corrupt behaviour, corruption scandals, collusion, bribery and lack of transparency, damage that trust.

The FISA is designed to gain an objective and independent view of the integrity of a country's financial system. It will provide customers, citizens, communities, civil society organisations, government and businesses with detailed information about the way that the financial system conducts itself. It identifies and seeks to prevent poor conduct through reinforcing core ethical values and culture which contribute to strengthening the integrity systems which prevent corruption.

FISA is not a review. Instead it is a pro-active tool aimed at self-assessment and at widening the discussion about the priorities for New Zealand to strengthen its integrity systems, and the best way of protecting against corruption whether from internal or external sources. It is based on the principle that maintaining public trust requires integrity that supports resilience and innovation.

Armed with this knowledge, both citizens and customers can identify good conduct and push for improvement. At the same time, financial organisations can choose to set clear priorities to develop their activities aimed at preventing corruption while seeking the additional returns that come when they adopt a pro-active role to promote their integrity.

Through these additional returns, our country's banks, finance companies (deposit takers and lenders) and insurers will be able to continuously innovate, upgrade their services and confidently engage with international capital markets. This will assist in minimising the risk premium inherent in interest rates for New Zealand household and business borrowers.

The global financial crisis was a dramatic event that impacted strongly on economic and individual wellbeing, when many financial organisations were found wanting. Yet still today, internationally, while there was change to the structures of such institutions and organisations, many of the features that support unethical behaviour continue to exist. The 2019 Hayne Review findings for Australian banks and insurance companies, found evidence of weak integrity systems including potential criminal conduct. While the 2018 high-level conduct review for New Zealand by the FMA and RBNZ found less misconduct here, there was evidence that governance and integrity systems require immediate improvement. In addition, cyber currency trading, peer-to-peer lending, crowd funding platforms and other technologies are a growing part of the financial system. It is important, therefore, to ensure that the financial integrity system is resilient and that financial organisations are robust enough to manage the risks of disruption while benefiting from the opportunities.

Internationally, reform in banking and financial systems is still required. By contrast, during and since the GFC the New Zealand financial sector (including banks, finance companies, financial advisers, product providers and others) has seen one of the most comprehensive changes in regulatory regime that any sector has ever been subject to. It has involved significant investment in systems-changes for financial organisations and, therefore, stepping up to maintain the features of a robust, self-regulating financial system, critical to our future.

The FISA initiative, then, is one where yet again New Zealand has already made changes and is able to show the way forward. New Zealand financial organisations can demonstrate their willingness to be accountable, potentially reducing the costs of regulation while freeing up resources for quality customer services that are sustainable for the future.

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<sup>1</sup> See Glossary for a definition of financial organisations, a specific grouping for this assessment.

## FISA ASSESSMENT SUBJECTS

### **(1) POLICY**

1. Government oversight of regulatory bodies
2. Alignment with international protocols
3. National anti-corruption and integrity policy
4. Resourcing regulatory bodies
5. Continuous improvement

### **(2) GOVERNANCE**

6. Tone at the top
7. Strategic direction, planning and execution, reporting and independent assurance
8. Relationship between governing bodies and regulators
9. Policies for responsible investment and lending

### **(3) ACCOUNTABILITY**

10. Regulation of financial organisations
11. Asset disposal
12. Quality of scrutiny
13. Paying tax

### **(4) INFORMATION AND COMMUNICATION**

14. Communication about the state of the financial system
15. Transparency of regulatory bodies' ~~budgets~~ mandates and resourcing
16. Public communication by financial organisations
17. Corporate social responsibility
18. Public debate on integrity of the financial system
19. Public debate on bribery and corruption

### **(5) HUMAN CAPITAL**

20. Organisational culture
21. Auditing the risk culture
22. Incentives for anti-corruption and integrity-promoting behaviours
23. Merit-based appointments and promotions
24. "Know your employees"

### **(6) CUSTOMERS**

25. "Know your customers"
26. Trusted regulatory bodies
27. Consistent due diligence
28. Featuring integrity in promotional materials
29. Demonstrating integrity in dealings with customers

### **(7) OPERATIONS**

30. Expectations of operational managers
31. Tracking the risk of corruption and value of integrity systems
32. Use of external advisors and contractors
33. Helping build the national reputation

### **(8) RISK MANAGEMENT AND MONITORING**

34. Risk management frameworks
35. Responding to international monitoring
36. Identifying the value to New Zealand of financial system integrity
37. Transparent resourcing of financial oversight

### **(9) PROCUREMENT**

38. Minimising risk in procurement
39. Procurement staff training

## 2019 NEW ZEALAND FINANCIAL INTEGRITY SYSTEM ASSESSMENT METHODOLOGY

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## INTRODUCTION TO FISA

The New Zealand Finance Integrity System Assessment (FISA) is the first ever review of the integrity system of any country's financial sector. Transparency International New Zealand (TINZ) will lead the review. As an independent civil society organisation, it is uniquely placed to ensure both independence and objectivity. The FISA covers a wide range of financial organisations as well as government and industry agencies with oversight and regulatory roles in the finance sector.

Why the time is now?

The Reserve Bank of New Zealand (RBNZ) and Financial Markets Authority (FMA) review into banks, November 2018, found that *“Overall, there are weaknesses in the governance and management of conduct risks, and significant gaps in the measurement and reporting of customer outcomes”*.

They noted that there was *“significant variation in the maturity of banks’ approaches to identifying, managing and remediating conduct risks and issues”*, with some banks described as *“reactive at best, and complacent at worst”*.

Their review into the Insurance sector was more concerning, finding *“extensive weaknesses in life insurers’ systems and controls... governance and management of conduct risks is weak and there is a lack of focus on good customer outcomes.”* The report urged insurers to act urgently as the industry is vulnerable to misconduct and escalation of issues. Additionally, it noted there were instances of poor conduct and existing examples of potential misconduct (i.e. breaches of the law).

The Hayne review in Australia (February 2019), was hugely critical of the financial sector there with recommendations aimed at answering four key questions:

- How can the law be simplified so that its intent is met?
- How should the approach to conflicts of interest and conflicts between duty and interest change?
- What can be done to improve compliance and the effectiveness of the regulators? and
- What more can be done to achieve effective leadership, good governance and appropriate culture so that financial services entities obey the basic norms of behaviour that underpin the proper regulation of the financial services industry?
- 

Whilst New Zealand is different from Australia, many of its financial organisations are owned or backed by Australian or other overseas-owned companies. FISA is an opportunity to differentiate the New Zealand financial system and highlight areas where its integrity systems are strong as well as those for further improvement.

The time is now; financial organisations and insurers can no longer afford to be complacent. With FISA, financial organisations can take accountability back, front foot change and lead remediation and improvement themselves. All financial organisations have the opportunity now to ‘stand up’ or risk being bystanders to regulated change.

The **aim** of the FISA assessment is to:

- Build **trust** and **confidence**, nationally and internationally, in New Zealand’s financial system
- Examine the current state of the **integrity systems** of New Zealand’s financial system
- Foster and support **good conduct**, and motivate the development of new initiatives and tools that support good conduct and prevent and combat corruption, and
- Reinforce a **culture of integrity** in a way that **realises its benefits**.

The FISA will provide customers, citizens, communities, civil society organisations, government and businesses with detailed information about the way that the financial system identifies and seeks to prevent corruption.

This will enable them to identify good performance and push for improvement. Financial organisations will have a blueprint for improvement enabling them to set clear priorities for preventing corruption while seeking the additional returns that come when organisations adopt a pro-active role to promote their integrity.

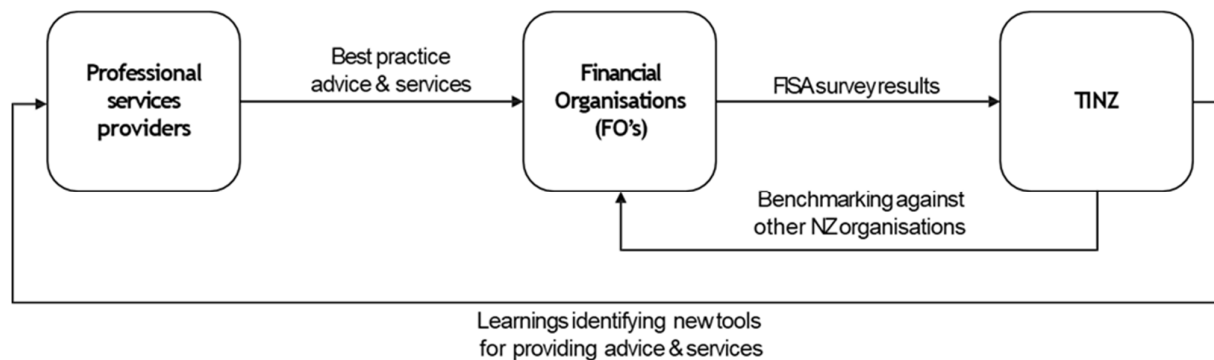
Brian Yee of *Making Strategy Happen* led the development of the FISA Strategy which included consultation with representatives from financial organisations and regulators across the Financial Sector.

The FISA strategy is to create a virtuous cycle generated by the following stages:

1. online self-assessment completed by financial organisations - banks, finance companies, kiwi-saver providers and insurance companies
2. publication of the anonymised results of the self-assessment
3. review and context provided by the independent assessment
4. development of TINZ tools for use by professional services firms as a basis of their advice to their financial services clients and for inputs to the next annual self-assessment.

FISA's strategy is to set in place a virtuous cycle of continuous improvement through the self-assessment.

Incorporated in the cycle is the design and implementation of tools, led by TINZ, to improve corruption prevention and to sustain strategies aimed at growth in productivity.



## FISA Process Plans

- The self-assessment (survey) will be discussed each year prior to voluntary take up by financial organisations and some questions adapted as required.
- It is planned that the self-assessment will be carried out annually and the system assessment will be carried out every 5 or 10 years.
- Once the ASSESSORS begin their assessment, they will review the assessment questions and scoring in relation to recent relevant activities.

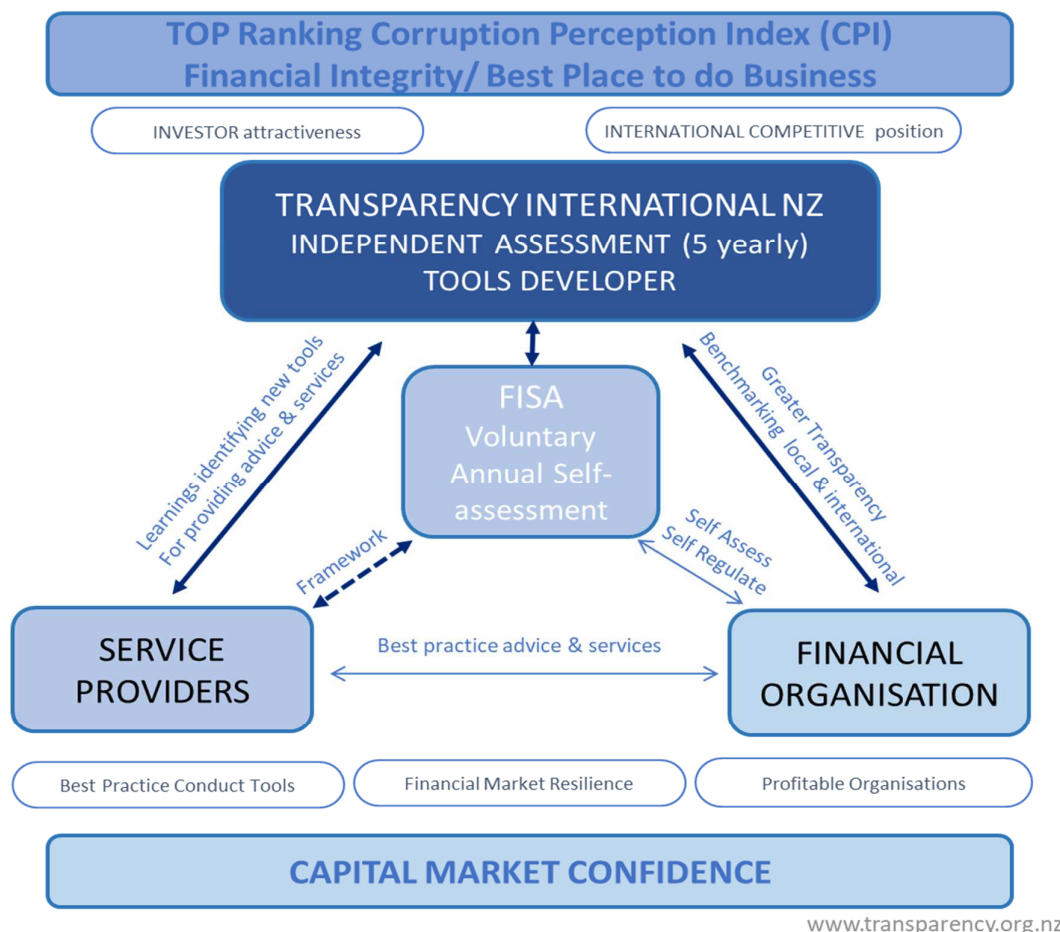


# WHAT IS FISA?

**The Financial Integrity System Assessment takes stock of the integrity within the financial system in New Zealand.** Beyond restraining the abuse of power, integrity systems should also be designed to ensure power is exercised in a manner that is true to the values, purposes, and duties for which that power is entrusted to or held by financial organisations and individual office-holders, whether in the public sector, the private sector, or civil society organisations.

**At the heart of this assessment is the examination by three independent assessors of nine key subject areas that shape financial market behaviour.** The FISA assessment is an evaluation of the way financial organisations operate to build public trust.

**The assessment will identify systemic interactions, interdependencies, and common themes and concerns.** The wide scope of the FISA assessment facilitates such identification, which is difficult, if not impossible, to achieve in standard sector- or institution-specific analyses of transparency and accountability. Further, it is designed to consider how financial organisations operate, their interactions (positive and negative), thus providing a basis for understanding the systemic effectiveness of their combined impact on the public trust essential to the resilience of a financial system.



## FISA OBJECTIVE AND OUTCOMES

Transparency International New Zealand's (TINZ's) objective is to ensure that strong, effective practices are in place throughout society and the economy, applying mechanisms for strengthening integrity systems. These reinforce core ethical values and conduct to prevent corruption.

This approach also involves engaging public and private organisations to work with independent civil society watchdogs to ensure that there is transparency.

The Financial Integrity System Assessment's objective is to assess the factors that contribute to preventing corruption and strengthening integrity in the financial system. It is designed to see if the financial sector, having implemented conduct and integrity measures that prevent corruption, has enhanced its brand and harvested the benefits.

This assessment of the financial system includes organisations within the banking, finance, insurance sector and their regulators. The financial organisations are:

- Registered banks
- KiwiSaver providers
- Finance companies (deposit takers and lenders)
- Credit unions and building societies
- Insurers.

The key regulators, oversight organisations and legal compliance bodies are:

- Reserve Bank of New Zealand (RBNZ)
- Financial Markets Authority (FMA)
- Commerce Commission
- Department of Internal Affairs (DIA, AML)
- Ministry for Business, Innovation and Employment (MBIE)
- Ministry of Justice
- Inland Revenue Department (IRD)
- Serious Fraud Office (SFO)
- Banking Ombudsman
- Insurance and Financial Services Ombudsman
- Financial Services Complaints Limited.
- Financial Disputes Limited.
- Trustee Corporations
- Supervisors

Other organisations with a key role in the sector include:

- New Zealand Bankers' Association
- Financial Services Federation
- Co-op Money NZ
- paymentsNZ
- Insurance Council of New Zealand
- Financial Services Council (FSC)
- and other professional bodies.

Excluded for the purposes of FISA (out of scope) are credit card issuers, financial advisors, providers of store credit cards and similar organisations.

FISA outcomes will impact on all New Zealanders, investors and financial organisations. If the assessment is adopted elsewhere, it will impact on world security through reducing corruption, as well as increasing resilience in the financial system by building public trust.

### ***FISA MATTERS FOR NEW ZEALANDERS***

TINZ supports the New Zealand Story (see [www.nzstory.govt.nz](http://www.nzstory.govt.nz)) that demonstrates New Zealand's reputation for integrity is recognised internationally. This international recognition is an opportunity to provide widespread benefits to citizens, which can be harvested

- via access to capital on better terms than at present
- by our banking and financial organisations attracting off shore deposits
- by our insurance companies seeking quality re-insurance
- and, through the activities of financial organisations, and customers having better access to quality terms for borrowing and insurance.

In support of this opportunity, the prevention of corruption is important as its existence undermines public trust. Corruption threatens citizens' security. It also impacts on the resilience of the economy to grow, attract responsible investors and create great organisations with good jobs and a sustainable future.

When financial organisations do the 'right thing', customers get better outcomes. Maintaining the trust that ordinary citizens and the community have in the financial system, is a key factor that contributes to the national sense of security and cohesion.

### ***FISA MATTERS FOR INVESTORS***

Demonstration of a trusted financial system makes New Zealand increasingly attractive to foreign investment. In addition, demonstration that the system is actively preventing, or at least minimising, the risk of corruption in and through the conduits provided by the financial sector, can lower the risk premium in interest rates and insurance premiums. Ethical culture and conduct act to provide an effective platform for preventing corruption.

Strong integrity systems reduce risk of resource misallocation that arises when investments are made on the basis of corrupt decision-making. A growing number of responsible foreign investors are seeking to invest in financial organisations that have ethical cultures. This has the potential to attract more investment to a country also known for having strong anti-corruption policies and practices.

### ***FISA MATTERS FOR WORLD SECURITY***

The local and international security of financial markets can be put at risk through corrupt agendas pursued under the guise of international cooperation and capital market operations. Also, corruption can lead to impunity where so-called leaders further undermine public trust. There is an increasing number of governments concerned that their financial organisations are characterised by lack of integrity and public trust, and tolerant to corruption.

It is important to demonstrate the attributes of the New Zealand financial system that contribute to its striving for integrity, so that our Government does not harbour such concerns. TINZ is dedicated to doing everything it can to ensure clarity about what is required to prevent corruption. It is also dedicated to carrying out assessments to demonstrate the quality of corruption prevention activity. This includes identification of gaps where further change is required and advice about addressing them. TINZ's FISA assessment describes corruption risk across the financial system, hence making the

risk of corruption visible. The assessment is also designed to increase knowledge about the nature of ethical culture and conduct. In this way, it allows decision-makers and citizens to monitor the progress made in reducing this risk.

## ***VULNERABILITY OF FINANCIAL SYSTEM TO GRAND CORRUPTION***

Globalisation and the development of transnational financial services have enabled well-organised, corrupt governments to hide funds gained through corruption, and to extract resources from their populations on a grand scale. Populations that pushed for democracy in post-colonial states have been disenfranchised through the establishment of kleptocratic regimes that operate the state apparatus entirely in their regime's interest. In corrupt countries, small groups of elites divert state resources and control the institutions of the state for their personal enrichment while managing to retain power over their populations. This not only leads to the suffering of billions of people worldwide. It also threatens the foundations of the rules-based global order as these corrupt elites at the top of state institutions, influence global politics and security.

Grand corruption and state capture mean that elites can redirect public spending from sectors which benefit the population to those where opportunities for graft and kickbacks are greatest. They can also extract natural resource rents to the detriment of the population's well-being, and turn defence and security forces into predators either by repurposing them for wealth extraction or neglecting them entirely.

## ***IMPACT OF GRAND CORRUPTION ON THE FINANCIAL SYSTEM***

Western banking systems have combined with regulatory loopholes and a shadow network of high-secrecy jurisdictions, to enable theft on a massive scale. The 2016 Panama Papers investigation showed that kleptocratic rulers often exploit the anonymity of Western banking and lax corporate legislation that allows structures which can hide wealth and financial flows from other sources.

The OECD's 2018 Exporting Corruption report listed instances of fraud that have been company specific rather than systematic. Evidence of bribery and corruption has not been a feature in the finance sector. The 2016 Panama Papers, however, provided evidence of the proceeds of corruption being laundered in New Zealand.

## ***PROSPEROUS FUTURE***

The New Zealand financial system has the potential to be resilient, responsible, responsive, safe and secure – the country's future prosperity depends on it. FISA is designed to ensure that those organisations that make up the financial system understand the impact of any bribery, corruption or fraud and minimise risk associated with this.

Lack of awareness and complacency mean that there is limited knowledge of the nature and extent of bribery, corruption and fraud within the New Zealand financial system. The recent Auckland Transport case provides many examples of corrupt behaviour in procurement. Vulnerability to grand corruption from offshore sources has the potential to have a massive impact on the NZ financial system.

FISA's aim is appropriate and consistent regulation and regulatory oversight backed up by awareness of the roots of these inappropriate activities and how they can best be prevented.

Financial organisations acting with integrity, self-disclosing risks and disclosing remediation facilitates and supports a cost effective, burden aware and balanced regulatory system. It demonstrates financial integrity.

## FISA'S AIM

The aim of this assessment is: to examine the current state of the integrity systems of New Zealand's financial system; and to motivate the development of new initiatives and new tools for preventing and combating corruption while reinforcing a culture of integrity in a way that realises its benefits.

As the New Zealand economy has become more engaged with new sectors of business and a wider range of global partners, it has increasingly built relationships with countries that have higher levels of corruption. This necessitates an explicit approach to preventing corruption in the financial system as a means of ensuring New Zealand's culture of zero tolerance for corruption is maintained.

For prudential purposes, New Zealand financial organisations need to monitor risks that are inherently associated with the growing diversity of customers and the changing features of relationships with them. Evidence that financial organisations are maintaining high standards aimed at preventing corruption contributes to New Zealand's current reputation for integrity, as a good country and as one of the best places to do business.

The FISA assessment is specifically focused on the effectiveness of financial organisations' processes for preventing corruption, maintaining strong integrity systems with activities that realise the benefits of these systems.

Ultimately, it is the inter-relationship of individual financial organisations, policy-makers, regulators and monitoring oversight, (including audit, risk management, and dispute resolution) that ensure the system is resilient. A key aspect of this resilience is customer trust based on informed engagement with the services they use. MBIE's 2019 review of financial organisations describes the overarching duty to act with due care, skill and diligence.

The assessment framework is educative – it provides the financial system's leaders, citizens and customers with information on the prevention of corruption, internal ethics and the features of strong integrity systems. It measures the degree of corruption risk and vulnerability in the financial system. It serves as a tool to identify where to concentrate efforts.

The design of the FISA assessment tool has been a collaborative process.

Evidence will be drawn from financial organisations and oversight institutions (regulators and supervisors). Participants have been given an opportunity to comment during the development of the assessment methodology, as has the wider public. The assessment framework has stage gates, allowing for consultation and feedback. During the assessment, participants are given opportunities to comment on the draft report, including the "trial" scores, and to provide additional commentary if they desire. These assessments and the evidence behind the scoring are made public. The rationale for the assessment is to widen understanding and effect change where required.

The analysis of evidence collected will be subject to multiple levels of peer review (local and International) to minimise the risk of bias and inaccuracy in the responses, and to provide clear reasoning behind any judgements that are made.

## FISA FRAMEWORK

### ***POLICIES AND PRACTICES TO PREVENT CORRUPTION***

TINZ sees this assessment as an opportunity to examine the extent that financial organisations implement the seven key policies, processes and actions that prevent corruption. These are set out in Table A below.

It is through the implementation, review and continuous improvement of these seven key policies, processes and actions (tools) that organisations build strong integrity systems.

| TABLE A POLICIES AND PRACTICES TO PREVENT CORRUPTION   |  |
|--|--|
| <b>1. Tone at the Top</b>  | Commitment to zero tolerance for corruption backed up by prompt and decisive action where corrupt practice is discovered. This includes prosecution and better ways to prevent corruption by policy makers, boards of directors and senior leadership teams that reinforce the values that create strong integrity systems and create an environment for preventing corruption.        |
| <b>2. Code of conduct and guidelines continuously improved</b>                                   | Codes of conduct that engage all organisations, their Boards, management teams and staff to provide the framework for trusted operations, staff and customer relationships aimed at doing the right thing. This framework is enforced (including through penalties for serious misconduct), regularly refreshed for what works best and continuously improved.                         |
| <b>3. Corruption prevention communication and training</b>                                       | Maintaining an ethical, transparent business model that contributes positively to risk management and strategy. Regular communication to highlight the benefits of trust, cases of individual courage, as well calling-out corrupt practice and prosecuting when it occurs. Provision of training aimed at preventing corruption.  |
| <b>4. Up-to-date knowledge of relevant legislation/ regulation</b>                               | Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers' purchase decisions based on ethics. International cooperation around anti-money laundering and domestic legislation are changing at a rapid pace making it necessary to have explicit systems to keep up-to-date on anti-bribery and anti-corruption legislation. |
| <b>5. Avenues for reporting breaches in ethical standards</b>                                    | Whistle-blowing provides a strong lever for preventing corruption through reporting breaches of ethical standards. Strong protective disclosure processes are essential so that all staff members feel safe in reporting breaches when they have evidence.   |
| <b>6. Due diligence of distributors, agents, joint ventures</b>                                  | Financial organisations that are pro-active in due diligence of distributors, agents, joint ventures, sub-contractors, are in a stronger position to prevent corruption, in a world of increasingly diverse population, labour force and overseas markets.   |
| <b>7. Regular audits backed up by independent risk assessments that uncover corrupt practice</b> | Undertaking regular audits that uncover corrupt practice, assists directly in preventing corrupt practice while also signalling that addressing corruption is a priority for organisations, backed up by independent risk assessments.   |

## DEVELOPMENT FACTORS FOR A STRONG INTEGRITY SYSTEM

FISA also examines how serious organisations are about developing strong integrity systems. It demonstrates this by looking at the extent to which the financial system harvests reputational benefits that come from an integrity culture. For the assessment, evidence will be collected about the seven integrity system development factors described in Table B below.

| TABLE B INTEGRITY SYSTEM DEVELOPMENT FACTORS |  |
|--|--|
| <b>1. Reputation and brand</b>               | The value of a modern organisation is in its reputation. If the reputation is harmed, the value of the brand is destroyed. The New Zealand Story toolkit – <i>Ingenuity, Kaitiaki and Integrity</i> provides examples that NZ businesses have used to their advantage. Also included in the toolkit is a wide range of infographics providing evidence of NZ's rankings in business. All organisations can add value through enhancing their integrity systems.          |
| <b>2. Easier market access</b>               | Maintaining an ethical standard of business and adhering to New Zealand's good reputation, opens doors for companies to access new markets. This is evidenced by several case studies in the NZ Story toolkit. For New Zealand financial organisations, this means opening up new product markets locally, to support the international activities of New Zealand based businesses.  |
| <b>3. Lower costs</b>                        | Maintaining an ethical, transparent model of business contributes positively to risk management and strategy. Maintaining good ethics will help financial organisations to remain sustainable, by preventing scandal and catastrophe at all costs through proactive culture (rather than reaction after the fact).   |
| <b>4. Customer loyalty / market position</b> | Consumers are increasingly demanding more ethical products and services. Retail research provides data on consumers' purchase decisions based on ethics. Companies that can consistently and transparently show customers that they are ethical can maintain and grow their revenue. L'Oréal demonstrates how a strong, ethical reputation can generate a loyal and steadily increasing customer base, targeted to double from 1 billion to 2 billion customers by 2020. |
| <b>5. Access to capital</b>                  | Organisations able to show that they have integrity are more likely to access capital. Investors will be more likely to invest in a company with solid, ethical risk management. Access to loans will be easier for those with credible, ethical reputations.  |
| <b>6. Quality committed staff</b>            | Maintaining a positive and ethical work environment will ensure more efficient and productive staff. Avoiding favouritism and nepotism allows talented employees to feel certain they can develop careers based on merit and fair compensation.  |
| <b>7. Higher returns</b>                     | Ethisphere's <i>World's Most Ethical Companies</i> list of companies honoured over the last decade, provides evidence that adherence to ethical and sustainable behaviour leads to increased returns on investment.  |

FISA has 39 assessment subjects. Each one includes guidance to determine the extent that the financial system is adopting the policies and practices to prevent corruption and then maximising its returns from the seven development factors above.

To achieve an optimal score for any of the assessment questions, the assessors will examine proof of the steps that financial organisations take to implement the above seven development factors. This provides a strategic framework to harvest the benefits that come from addressing bribery and corruption.

It is through these strategic activities that organisations can grow in a more sustainable way.

This has the potential to lead to returns that can be re-invested in development, including continual refreshment of activities designed to prevent corruption.

In addition, such activities enable quality and active job creation and better customer services.

## ASSESSMENT SUBJECTS

The FISA survey assessment questions are clustered into nine subject areas where there is pressure on integrity and a risk of corruption. The growth and prosperity outcomes sought for New Zealand are more achievable with a strong financial integrity system. Table C below shows how transparency and anti-corruption activity supports these desired integrity outcomes.

| TABLE C                          |  | CORRUPTION/INTEGRITY RISK  | VALUES TARGETED   | INTEGRITY OUTCOME |
|----------------------------------|--|--|---|-------------------|
| ASSESSMENT SUBJECT               |  |  |   |                   |
| 1. Policy                        | A lack of clear accountability for the integrity of national and organizational financial policies, systems and processes.   | Public expectations of integrity in public policy. Strong policy that also considers corporate social responsibility & environmental sustainability. | Perceptions of high levels of integrity backed up by evidence of a systematic approach to preventing corruption and an effective regulatory environment where required. |                   |
| 2. Governance                    | Inadequate “Tone from the Top” and/or poor leadership behaviours and complacency leading to poor oversight and monitoring  | Public trust in national and corporate leadership within financial system.   | Leadership talks the talk and walks the talk without exception, creating an authentic atmosphere of openness and transparency   |                   |
| 3. Accountability                | Inadequate reporting and surveillance systems, limited non-financial reporting in key areas where corruption can take place, exposing NZ’s vulnerability to grand corruption | Transparency and visibility of financial and non-financial policy and process.   | Financial transactions are trusted. Deposits are safe. There is public trust in the financial system.   |                   |
| 4. Information and communication | Information is not shared with relevant stakeholders, including staff.   | Transparency of financial sector operations & oversight to meet legal, regulatory and social responsibilities.                                       | Financial sector is trusted.  |                   |
| 5. Human capital                 | Staff working unsupported and without adequate skills in sensitive areas. Staff in financial risk given undue authority.   | Courage of individuals working in critical areas of the financial sector to identify & communicate irregularities.                                   | There is openness - irregularities are openly discussed and resolved. Effective protective disclosure for whistle blowers.  |                   |
| 6. Customers                     | Lack of financial literacy leaves customers exposed and less confident to realise market and personal opportunities.   | Trusted financial advisors. Trusted institutions. Trusted and accessible complaint and redress mechanisms.   | NZ reputation for integrity upheld as customers and businesses access financial services for daily activities, to invest and grow.                                      |                   |
| 7. Operations                    | Lack of knowledge and or complacency (apathy) about vulnerability to corruption.   | Courage to identify and address corrupt practice, backing this up by investment to realise the benefits of a trusted financial system.               | Organisational justice, higher returns.   |                   |
| 8. Risk management               | Lack of monitoring to ensure systems and policies operate as intended or to identify areas for improvement.  | Policies, laws, systems and processes support cultural and social responsibility aims of the financial sector.                                       | Policies, laws, systems and processes are continuously improved to meet new sustainability challenges in a proactive manner.  |                   |
| 9. Procurement                   | Poor oversight of contracting processes and of outsourced activities.  | Transparency and trust in the financial sector.  | Integrity demonstrated at all levels of the financial sector value chain.   |                   |



## ***TYPES OF CORRUPTION/INTEGRITY RISK***

As outlined in Table C above, the assessment describes varying degrees of corruption/integrity risks. These are briefly specified below for the nine key assessment topics:

1. Policy risk: The effectiveness of central bank policy, prudential supervision and other financial oversight agencies in holding banks, financial organisations, insurance companies and their regulators to account.
2. Governance risks: The capacity and priority of the governance bodies of individual institutions to hold their institutions to account.
3. Accountability risks: The adequacy of mechanisms that ensure transparency, confidence and prevention of illegal practices including corruption, money laundering and financing of terrorism.
4. Information and Communications risks: The adequacy of mechanisms to ensure transparency (disclosure) and accuracy of information, Protection of privacy and security of personal information. Effectiveness of information-sharing between financial sector participants and stakeholders.
5. Human Capital integrity risks: Formal measures in place over personnel, to prevent illegal practice and corruption, including significant support of whistle-blowers, provision of training and better preparing personnel in sensitive positions, such as increasing staff rotation.
6. Customer integrity risks: Risks of misleading the public into thinking their money is safe without putting in place processes to honour that belief. Use of the financial organisations' knowledge about financial markets to lead customers into making financial decisions against their own interest. The effectiveness of systems for identifying corrupt, criminal and unethical customers.
7. Operations corruption/integrity risks: The adequacy of policy and process mechanisms to address corruption. Integrity risk in operations including: strong integrity/anti-corruption training and whistle-blowing/processes; regulators reliance on power and/or theory about financial markets to specify and impose regulations without sufficient understanding or acknowledgement of the factors that drive the financial and sustainability outcomes of financial organisations.
8. Risk Management and Monitoring: The adequacy of oversight and monitoring systems and procedures for corruption prevention and integrity building, including regular evaluation and continuous improvement for increased effectiveness.
9. Procurement corruption risks: The risks relating to outsourcing and/or complex components of the procurement cycle, including subcontractors and advisors, which may hide inappropriate transactions and irregularities in the financial systems.

FISA analysis is based on the information (the evidence) that can be obtained from public sources and anonymised survey data. To address the likelihood that some information sources may be incomplete, inaccurate or out of date, evidence will be collected from several sources of information by the assessors assisted as required by expert researchers.

Most New Zealand financial organisations have some focus on ensuring that their integrity systems and controls include independent audits that are transparent and open to public scrutiny. While this standard practice increases the likelihood that the evidence collected for the assessment will paint a positive picture around a focus on propriety, as noted above, the focus of the FISA assessment is specifically on how effective their processes are in preventing corruption, maintaining strong integrity systems and carrying out the activities that realise the benefits of them.

## ASSESSMENT METHODOLOGY

### **THE ASSESSMENT OF THE FINANCIAL SYSTEM**

The national assessment is to be carried out by three leading expert assessors. Their work and the evidence-based draft conclusions will be reviewed by an independent review team, including consumer representatives and external overseas financial system experts. Where more knowledge is required, assessors will contract researchers who are independent specialists with varied experience across the finance sector. Evidence will include findings from a short survey of all banks and financial organisations, specialist books and papers, interviews and additional publicly available information such as corporate reports and disclosure statements, and media articles. It will be up to the assessors to score each of the 39 sub-subject-questions.

### **THE NINE ASSESSMENT SUBJECTS**

FISA is designed to examine nine assessment subjects. For each of these subjects, there will be three or four inherent topics covered by questions. The methodology also includes guidance questions.

### **SCORING**

The answer to each assessment question will be scored from (1) to (5) using detailed model answers for guidance. Numerical scoring helps standardise the responses across questions (and if in due course, other countries follow New Zealand's lead, across countries). For each question, assessors will be required to provide narrative explanations for their scoring, and to list references. Through in-depth analysis of each risk area, an overall picture of the country's financial sector corruption risk will be developed along with evidence that objectively demonstrates the strength of its core values and integrity systems.

The assessment will calculate scores for each assessment question and associated guidance questions, with (1) being low to (5) being high. Scoring will be based on the following, adapted for each assessment subject question topic:

1. If despite some evidence of the existence of policies describing some or all 7 of the corruption prevention tools, there is evidence lacking that these tools are applied in practice, the score will be (1) and if there are no policies, the score will be (0);
2. Where there is some evidence that the application of corruption prevention tools is effective at preventing corruption, the score will be (2);
3. A score of (3) will be given where corruption prevention tools are available and there is evidence that most of these tools applied across the system;
4. A score of (4) applies where there is evidence that all seven corruption prevention tools in Table A are actively practised OR there is evidence of all seven corruption prevention tools with some applied as well as evidence of at least one of the development factors, as per Table B, being actively progressed;
5. The highest score of (5) will be given where the strength of integrity systems across the financial sector is demonstrated by activities carried out to realise the benefits from integrity – there will be evidence of all Table A's seven anti-corruption policy tools being put in practice, providing a platform for Table B's development factors.

To encourage dialogue, the draft results will be sent out to financial sector experts for comment. These include the New Zealand Bankers Association, the Financial Services Federation, the Insurance Council, the Financial Services Council (FSC), Co-op Money, paymentsNZ, the RBNZ, Commerce Commission, Department of Internal Affairs, FMA, and Banking Ombudsman as well as other dispute resolution schemes, and to the TINZ Board.

Assessors will consider this feedback and may wish to meet with relevant bodies prior to submitting their findings to peer review. The resultant assessment score is for the national financial system.

### ***SELF-ASSESSMENT ONLINE***

A major part of the evidential base for the FISA assessment will be collected from financial organisations using an online voluntary self-assessment tool. This tool will be launched in July. It is designed using the framework for the assessment based on the nine subjects, the seven corruption-prevention policies and practices and the seven development factors for financial organisations also have application for regulators.

It is intended that the self-assessment will be carried out voluntarily by all financial organisations. The results will be anonymised though individual organisations can benchmark themselves.

### ***FISA ASSESSMENT REVIEW***

A feature of FISA is the regular review and open discussion of the assessment findings. This contributes to greater public understanding and trust.

### ***GOVERNMENT REVIEW OF THE RESULTS***

Relevant government agencies will be encouraged to participate in the assessment, both as regulators and within their proper capacity to review evidence. This participation will enable valuable dialogue between government agencies, financial organisations and researchers, and will help ensure accuracy in assessor responses. Responses on inaccuracies, omissions and different judgements are welcome, and such responses will be published along with the wider assessment. It is through this wider discussion that learnings are shared about what works best to build strong integrity cultures.

### ***INDEPENDENT REVIEW OF THE EVIDENCE AND FINDINGS***

An Independent Review Panel will review the FISA evidence and findings to ensure that they are balanced, accurate, comprehensive and appropriate for the question. The IRP will also review whether findings reflect the evidence base.

### ***TRANSPARENCY INTERNATIONAL (GLOBAL) REVIEW***

The Transparency International Secretariat in Berlin has contributed during early consultation on the design of the FISA assessment framework. The Secretariat will also be given the opportunity to contribute by reviewing the assessment output.

### ***PEER REVIEW***

The near final assessment report will be peer reviewed by both New Zealand-based and overseas based reviewers.

### ***PUBLICATION***

FISA's approach is designed to engage a wide audience in the conversation about the culture and conduct of the financial system. Its premise is that through dialogue, there can be more knowledge gained over the years of what works best. This is the basis of a robust and resilient financial system that is future proofed.

There will be the following publications:

- (1) FISA Assessment Methodology (consultation version and 2019 Final)
- (2) FISA Online Self-Assessment Tool
- (3) Finding from an analysis of the FISA Online Self-Assessment Tool
- (4) Draft Findings from the FISA Assessment
- (5) Final Conclusions of the FISA Assessment

## ASSESSMENT QUESTIONS

FISA's 39 *assessment questions* span the entire financial system. They are grouped into nine subject areas.

They will be answered by assessors based on evidence from the on-line survey of financial organisations, desk research, interviews and other more detailed evidence as required.

*Guidance questions* (associated with each question following) are intended to support assessors' scoring of each question though they are not scored.

*FISA voluntary self-assessment* will be distributed to all financial organisations, including those registered by the RBNZ, the FMA and the DIA, two months before the assessors formally begin the assessment. The self-assessment will be addressed to the CEOs of financial organisations. The self-assessment is designed to seek feedback from throughout organisations.

Assessors will summarise and synthesise the survey results and take them into account when carrying out the assessment which covers 39 different areas.

*Research question topics* will be identified by the assessors before the assessment begins. Research topics will cover areas where further evidence is required to both examine the question and to score it. Expert researchers will be contracted to scope the research to be carried out within the time frame of the assessment.

The next sections specify the 39 assessment questions grouped into the 9 subject areas.

## POLICY ASSESSMENT QUESTIONS

### 1. Government oversight of regulatory bodies

- To what extent is there statute-based provision for effective and independent scrutiny of the practices to prevent bribery and corruption in areas such as financial sector prudential regulation and supervision, market conduct regulation and regulations set by the Anti Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT)?
- What are the processes for routine scrutiny?
- How effective is the process of scrutinising regulatory agencies?

#### Guidance questions:

- Does the country have an identifiable and effective parliamentary committee (or similar representing citizens) to exercise oversight of the financial sector's practices in the prevention of bribery and corruption, the identification of poor practice and the reporting of it?
- How frequently does such a committee meet for the purpose of considering oversight and regulatory performance regarding bribery and corruption?
- Given the level of integrity of the financial sector, including payments systems, does regulating policy enable strategies to maximise development factors that are the outcome of financial integrity?
- Public input, public oversight – how effective are the processes for citizens to monitor and report evidence of bribery and corruption to regulating bodies?
- Is there an effective framework for preventing agency capture, i.e. preventing government agencies from conflating the success of the bodies they oversee or regulate with their own success?
- What is the relationship between the various agencies (including Parliament and cabinet)? Are there gaps in coverage? Are the relationships effective in practice?
- How frequently does the system, as a whole, get reviewed to ensure it is still achieving the desired outcomes?
- Is there a plan in place to address any (known) weaknesses or gaps in the system?

| Score | Assessment Government oversight of regulatory bodies  |
|-------|---|
| 1     | Very weak: No provision for formal scrutiny of the financial system's practice to prevent bribery and corruption.   |
| 2     | Weak: Some formal provision exists, but expectations are loose and there is no follow-up.   |
| 3     | Moderate: Formal provisions in place but scrutiny, focus and expectations spasmodic.  |
| 4     | Strong: Comprehensive formal provisions in place. Scrutiny is regular and expectation high but not always effectively followed up or held accountable to high governance. |
| 5     | Very strong: High governance requires accountable policy and scrutiny, and links to the reputation/brand of the New Zealand financial system.                             |

## 2. Alignment with international protocols

To what extent has the country ensured that its commitment to international protocols has engaged the financial system so that they are reflective of the New Zealand environment as a country with smaller scale business and government? The relative protocols include anti-corruption standards and principles such as, but not exclusively or necessarily, United Nations Convention Against Corruption (UNCAC), the OECD Convention, Basel Committee on Banking Supervision (BCBS) core principles, and Financial Action Task Force (FATF) requirements for Anti-Money Laundering, Countering the Financing of Terrorism (AML/CFT) regulation.

### Guidance questions:

- Does the government have a transparent and well-scrutinised process for regulating financial institution corruption prevention and integrity system arrangements for alignment with international protocols?
- To what extent has it implemented this process?
- To what extent do regulators comply with recommendations that result from international monitoring? To what extent do financial organisations and other organisations also comply?

| Score | Assessment Alignment with international protocols  |
|-------|--|
| 1     | Very weak: Not signed up to international standards or focused.  |
| 2     | Weak: Aware but not actively pursued or widely communicated.   |
| 3     | Moderate: Actively pursued but not communicated.   |
| 4     | Strong: Some international instruments signed where pragmatic, but without widely communicating the commitment.  |
| 5     | Very strong: Co-ordinated widely communicated process to align and sign up to international financial system integrity protocols, with signing meeting expected timelines. |

## 3. National anti-corruption and integrity policy

To what extent does the country have a comprehensive and actively implemented anti-corruption policy for the financial sector?

### Guidance questions:

- Is the number of regulatory agencies in New Zealand charged with supervisory, regulatory and prudential oversight of the New Zealand finance sector so broad that it presents an opportunity for regulatory arbitrage in regard to oversight of prevention of bribery and corruption?
- Are there gaps in the regulatory and/or oversight system?
- To what extent are regulatory and oversight agencies empowered to address issues of corruption in the financial sector? To what extent do they use these powers?

| Score | Assessment National anti-corruption and integrity policy  |
|-------|---|
| 1     | Very weak: No specific financial sector anti-corruption policy.   |
| 2     | Weak: Various regulators and controls left to their own priorities and benign influence.  |
| 3     | Moderate: Regulators encouraged by central policy to focus on and pursue anti-corruption principles, policies and practice.   |
| 4     | Strong: Widely communicated policy and scrutiny, and regulators supported by government. Regulators co-ordinated and supported to visibly pursue, prosecute and report to country.  |
| 5     | Very strong: New Zealand policy widely communicated, and regulators co-ordinated and supported to visibly pursue, prosecute and report to country and this is integrated with strategies aimed at strengthening the financial systems, capital markets, the economy and New Zealand's reputation for integrity. |

#### 4. Resourcing regulatory bodies

To what extent are the policies, administration, and budgets of the regulatory bodies (for example, RBNZ, FMA, Commerce Commission, Department of Internal Affairs and Serious Fraud Office) adequately resourced, in regard to funding resources and in terms of oversight of their performance (in terms of effectiveness, efficiency and productivity) to carry out their mandate?

Guidance question:

- To what extent are the bodies required to expend a defined portion of their resources on their supervision or monitoring of the finance sector's integrity systems? In practice, do they do this?

| Score | Assessment Resourcing regulatory bodies   |
|-------|---|
| 1     | Very weak: Under-resourcing across regulatory and over-sight bodies.  |
| 2     | Weak: Some under-resourcing across regulatory and over-sight bodies.  |
| 3     | Moderate: Moderate resourcing across regulatory and over-sight bodies; some challenges, but most agencies are resourced to carry out their mandate if rigidly managed.                                  |
| 4     | Strong: Generally good resourcing across regulatory bodies.   |
| 5     | Very strong: Investment in regulatory bodies focused on working with the sector to adopt robust prevention policies and realise the opportunities of a financial sector with a strong integrity system. |

#### 5. Continuous Improvement

To what extent does the system, as a whole, get reviewed for its effectiveness at preventing bribery and corruption, including the adoption of proactive strategies to take account of the stronger integrity system? Is there a plan or roadmap in place to address, any (known) weaknesses or gaps in the system?

Guidance question:

How do we monitor that we are meeting our international and national requirements, for example; demonstrating how we have addressed the issues raised in the IMF technical note?

| Score | Assessment Continuous improvement  |
|-------|--|
| 1     | Very weak: No reviews completed in New Zealand other than those by international bodies; no plan or roadmap to address weaknesses developed.   |
| 2     | Weak: Some reviews undertaken; planning to address weaknesses underway.  |
| 3     | Moderate: Active internal audit in place that monitors practices to prevent bribery and corruption with limited engagement by senior management and the Board/Governance.  |
| 4     | Strong: Active internal and external audit of internal reporting of practice to prevent bribery and corruption including report of incidents or practices requiring improvement.   |
| 5     | Very strong: Continuous review undertaken on a 2-5 yearly basis; Plan / roadmap in place (including future focused reforms) and re-assessed on an annual basis that takes into account opportunities that can be realised for the system to improve. |

## GOVERNANCE ASSESSMENT QUESTIONS

### 6. Tone at the top

To what extent do financial sector leaders demonstrate pro-integrity and anti-corruption values and set expectations accordingly? To what extent do they maintain risk cultures that are designed to identify and reduce the risk of corruption and bribery? Do leaders promote the value of strong and effective integrity systems to the organisation and incorporate activities to harvest the benefits of them in setting the strategic direction?

#### Guidance questions:

- Is the tone at the top of financial organisations based on the attributes of good governance as reflected in the setting of a strategic direction that enables a strong integrity culture?
- Are the attributes of good governance apparent in the leadership style adopted by senior executives and board members of financial organisations?
  - These are: (1) participation; (2) rule of law; (3) transparency; (4) responsiveness; (5) consensus orientation; (6) equity; (7) effectiveness and efficiency; (8) accountability. See “What is Good Governance,” UNESCAP 2009; OECD, *Citizens as Partners – Information, Consultation and Public Participation in Policy-Making*, 2001.
- Do financial organisations and insurance companies maintain effective board risk management committees that oversee risk management in relation to financial integrity?
- Are risk registers effectively utilised and kept up-to-date and is there open disclosure of any conflicts of interest?

| Score | Assessment Tone at the top  |
|-------|---|
| 1     | Very weak: No evidence that leaders prioritise integrity and anti-corruption values.  |
| 2     | Weak: Leaders actively endorse these values, but they do not clearly feature in expectations; potential incentives exist for staff to cut across these values.  |
| 3     | Moderate: Leaders set this tone and set some expectations; however, integrity and anti-corruption may be secondary priorities to be balanced against other organisational imperatives.  |
| 4     | Strong: Leaders make a clear commitment to integrity and anti-corruption and follow through by setting clear expectations. Staff members (including contractors, senior management and the board) who actively practice or enforce anti-corruption are supported and rewarded. Leaders actively contribute to New Zealand’s development of relevant laws and regulations. |
| 5     | Very strong: Because of strong commitments to integrity and anti-corruption, and clear expectations, leaders and staff work together to realize the benefits for the organisation.  |



## 7. Adequacy of reporting and auditing

- a. To what extent do governing bodies require internal and independent external reporting and auditing of integrity risk areas including, good conduct with specific practices to prevent bribery and corruption, AML/CFT compliance, income sources etc?
- b. Are the requirements enforced and results monitored?
- c. How adequate is their risk management framework in respect of financial integrity (including, the effectiveness of protective disclosure to enable tip offs)?
- d. How open and transparent are the disclosures to governing bodies and their disclosures to their stakeholders?

### Guidance questions:

- Do audits generally include identification, scrutiny and transparency of sources of income, related-party transactions and other areas where corruption can occur?
- Are significant deficiencies required to be shared with the Governing Bodies?
- Is there evidence that leadership facilitates regular risks assessment designed to discover evidence of bribery, corruption and fraud as well as reviewing practice to ensure it is designed to prevent this occurring?
- Is there adequate compliance with the spirit as well as the letter of the laws and regulations?
- Do the Governing Bodies regularly meet and discuss results with the financial organisations including regulators?
- Are the reporting requirements regularly reviewed and updated for global and local developments?
- Do the Governing Bodies externally report/disclose on their high-level findings?

| Score | Assessment Adequacy of reporting and auditing   |
|-------|---|
| 1     | Very weak: No external or internal auditing or reporting required.  |
| 2     | Weak: Some auditing and reporting, but not mandatory; OR some requirements are set but not generally met.   |
| 3     | Moderate: Auditing and reporting is required. No or limited reporting to the Governing Bodies.  |
| 4     | Strong: Auditing is required and performed well by most institutions reporting is required and reviewed by Governing Bodies.  |
| 5     | Very strong: Financial organisations/Organisations and the Governing Bodies promote the strength of their financial integrity processes to attract responsible investors. |

## 8. Relationship between governing bodies and regulators

Is there a supportive relationship between governing bodies and regulators/ oversight agencies such that governing bodies receive information and support needed for their integrity responsibilities?

Guidance question

- Do governing bodies have access to reports and findings of regulatory and oversight agencies in areas that affect their integrity systems?
- Are members of governing bodies and regulators providing up-to-date registers of interest and is there open disclosure and management of any conflicts of interest?

| Score | Assessment Relationship between governing bodies and regulators   |
|-------|---|
| 1     | Very weak: The relationship is distant, and knowledge about ways to prevent bribery and corruption and strengthen integrity systems not readily shared.   |
| 2     | Weak: The relationship is formal - usually meeting specific requests.   |
| 3     | Moderate: The relationship is amicable - information is sometimes volunteered and is usually supplied with some effort to address specific requests.  |
| 4     | Strong: The relationship is supportive - relevant information is usually volunteered and is always available on request.  |
| 5     | Very strong: The relationship is very supportive, relevant information is freely volunteered, requests for information are always met in a timely and efficient manner and there is effort to develop the information into a knowledge base aimed at enhancing the financial system through building on its culture of integrity. |

## 9. Policies for responsible investment and lending

- a. To what extent do financial organisations have and implement policies for responsible investment and lending?
- b. To what extent have financial organisations and insurance companies adopted robust AML processes to ensure that the origins of funds received or invested are legitimate?
- c. To what extent are financial organisations open and transparent in what they invest in so investors can make informed decisions?
- d. To what extent are financial organisations and insurance companies open and transparent when they cross-sell or up sell their products e.g. PPI

### Guidance questions:

- Are investment policies related to anti-corruption principles and promoting an integrity culture published, regularly reviewed and updated?
- Are investment decisions regularly reviewed to determine if they meet the criteria/new criteria and strategies related to preventing bribery, corruption and fraud and strengthening integrity systems?
- To what extent do financial organisations have policies directed at ensuring loans are not made to customers who may present an integrity risk?
- To what extent are financial organisations aware of the Responsible Lending Code? Do they generally comply with it?
- Is there open disclosure of any conflicts of interest when investment decisions are taken?

| Score | Assessment Policies for responsible investment and lending   |
|-------|--|
| 1     | Very weak: No policy.  |
| 2     | Weak: High level investment policy occasionally reviewed.  |
| 3     | Moderate: High level policy regularly reviewed without clear implementation.   |
| 4     | Strong: High level policy regularly reviewed with clear implementation and oversight.  |
| 5     | Very strong: Evidence of greater engagement with customers through transparent investment policy. Clear description of standards of governance expected with regular review and oversight. |

## ACCOUNTABILITY ASSESSMENT QUESTIONS

### 10. Regulation of financial organisations

To what extent do regulators scrutinise financial organisations and insurance companies with the aim of identifying and addressing the factors that lead to bribery and corruption? Do they scrutinise and publicly report on the processes adopted by financial organisations for detecting and combatting bribery and corruption? Do the regulators and oversight agencies collaborate with financial organisations and insurance companies to build knowledge about the prevention of corruption and to ensure adoption of best practice?

#### Guidance questions:

- Do regulators review the adequacy of financial organisations' governance arrangements in relation to their risk management policies and practices?
- Is there regular scrutiny of risk management and internal audit in these areas?
- Is there particular scrutiny of policies in risk areas such as lending, deposit-taking, investment and foreign currency transactions?
- Do regulators regularly meet with the financial organisations and insurance companies to discuss their findings and areas for improvement.

| Score | Assessment Regulation of financial organisations  |
|-------|---|
| 1     | Very weak: No oversight or public visibility over financial organisations' spending on sensitive expenditure or operations.   |
| 2     | Weak: Financial organisations voluntarily report on agreed sensitive expenditure and operations.  |
| 3     | Moderate: Financial organisations report on agreed sensitive expenditure and operations and there is some oversight.  |
| 4     | Strong: Financial organisations report on agreed sensitive expenditure and operations and are subject to oversight which includes regular scrutiny to monitor the prevention of bribery and corruption. |
| 5     | Very strong: Financial organisations report on agreed sensitive expenditures, are subject to regulatory oversight. Regulator reports publicly on high level findings.                                   |

### 11. Asset disposal

To what extent is there regulatory oversight of the asset disposals conducted by financial organisations and insurance companies?

Are the reports of such scrutiny publicly available?

- Is there open disclosure of any conflicts of interest?

| Score | Assessment Asset disposal   |
|-------|---|
| 1     | Very weak: No oversight or public visibility over banking and finance institutions' asset disposals.  |
| 2     | Weak: Financial organisations voluntarily report on asset disposals.  |
| 3     | Moderate: Financial organisations report on asset disposals but are not subject to oversight.   |
| 4     | Strong: Financial organisations report on asset disposals, and, are subject to oversight.   |
| 5     | Very strong: Financial organisations report on asset disposals, are subject to regulatory oversight and public scrutiny is supported through transparent reporting. |

## 12. Quality of scrutiny

To what extent is the regulatory scrutiny of financial organisations and insurance companies independent, transparent and effective?

### Guidance questions:

- What is the extent of on-site examinations of financial organisations and insurance companies to assess their controls for preventing and addressing bribery and corruption, assessing compliance with AML/CFT requirements and to assess their risk culture and risk management policies and practices?
- To what extent is regulatory practice being applied consistently by the RBNZ, FMA and DIA in areas where inconsistencies would be a problem (such as in relation to transparency, conduct, customer treatment, fairness, and AML/CFT)?
- What measures are taken by regulators to ensure effective governance, conduct, risk management and compliance with requirements?

| Score | Assessment Quality of scrutiny  |
|-------|---|
| 1     | Very weak: No oversight or public visibility over financial organisations' behaviour that might lead to bribery and corruption.   |
| 2     | Weak: Financial organisations carry out voluntary processes for identifying and addressing factors that lead to bribery and corruption.   |
| 3     | Moderate: Financial organisations carry out and report publicly on their processes, but oversight is weak or inconsistent.  |
| 4     | Strong: Financial organisations report on the results of their monitoring of bribery and corruption and are subject to effective and consistent oversight.  |
| 5     | Very strong: Financial organisations report on the results of their monitoring of bribery and corruption and are subject to regulatory oversight - public scrutiny is supported through transparent accounting. |

### 13. Paying tax

How strong is the oversight exercised by the taxation authorities in the home and host jurisdictions to detect bribery, corruption and fraud and the linkages to the tax paid by registered banks, financial organisations and insurance companies? Has New Zealand responded to the international approach to managing Base Erosion Profit Sharing (BEPS) in a knowledgeable manner, by adopting practice which suit New Zealand conditions?

#### Guidance questions:

- To what extent do the authorities pursue allegations of tax evasion?
- To what extent do the authorities scrutinise tax minimisation arrangements?
- Do authorities co-operate with overseas authorities in relation to questions of bribery, corruption and tax evasion?

| Score | Assessment Paying tax   |
|-------|---|
| 1     | Very weak: No legislation or regulatory scrutiny and reporting to give government and the public an assurance that financial organisations are paying fair and reasonable taxation on revenues generated in country of operation.   |
| 2     | Weak: Legislation exists but no regular scrutiny and reporting to give government and the public an assurance that financial organisations are paying fair and reasonable taxation on revenues generated in country of operation.   |
| 3     | Moderate: Legislation exists, and there is some regulatory scrutiny but no reporting to give public assurance that financial organisations are paying fair and reasonable taxation on revenues generated in country of operation.   |
| 4     | Strong: Legislation exists, and regulatory scrutiny and reporting gives government and the public some assurance that financial organisations are paying fair and reasonable taxation on revenues generated in country of operation.  |
| 5     | Very strong: Legislation and regulatory scrutiny and reporting gives government and the public assurance that financial organisations pay fair and reasonable taxation on revenues generated in country of operation and finance organisations publicly report on taxes paid. |

## INFORMATION AND COMMUNICATION ASSESSMENT QUESTIONS

### 14. Communication about the state of the financial system

To what extent does high level public communication about the financial system (including insurance) from regulators and legislators promote a culture of trust and integrity across the financial system?

- Is there a communication strategy for effective and independent communication about measures that monitor the capacity of the financial system for responding to corruption when it arises?
- When reviews are conducted, is the analysis provided in a clear way that also engages the interest of the wider public, so it too can participate in supporting the New Zealand financial system to remain resilient?

#### Guidance questions:

- What are the outcomes of the information and communication strategies and practice of the organisations that make up the financial system? Do these strengthen the integrity system?
- Is the information provided in a manner that engages the public and is the tone at the top message clear?

| Score | Assessment Communication about the state of the financial system   |
|-------|--|
| 1     | Very weak: No reference to corruption in public comment about the financial system.  |
| 2     | Weak: Unsupported statement that there is a culture of trust across the financial system.  |
| 3     | Moderate: Clear statement of values that support the development of public trust.  |
| 4     | Strong: Explicit processes of corruption prevention practice published.  |
| 5     | Very strong: Clear evidence of strategy and practice to realise the benefits of the reputation based on demonstrated evidence of the strong NZ financial integrity system. |

## 15. Transparency of regulatory bodies' budgets

Is it policy to make publicly available the budgets of financial system regulatory/ oversight bodies?

To what extent are these budgets in fact publicly accessible and understandable?

### Guidance questions:

- Are budgets publicly available to the extent of showing key items of expenditure, including comprehensive information on balance sheets, training, personnel expenditures, acquisitions, disposal of assets, and maintenance?
- Are regulatory agencies required to disclose details of the resource they allocate to the regulation and supervision of financial organisations in respect of matters relating to financial integrity (e.g. Market conduct (libor/price fixing), regulation and supervision of AML/CFT)?
- In practice, can citizens, civil society and the media obtain enough detailed information to assess whether such agencies are well enough resourced to provide effective oversight of financial and non-financial performance financial sector?

| Score | Assessment Transparency of regulatory bodies' budgets   |
|-------|---|
| 1     | Very weak: No budget transparency - freedom of information law does not apply   |
| 2     | Weak: Loose or informal policy to make budgets available, with limited follow-through. Budgets may be accessible via freedom of information legislation, but requests are often declined or ignored |
| 3     | Moderate: Policy exists, and budgets are made publicly available, but may be difficult in practice to access  |
| 4     | Strong: Budgets are routinely made publicly available and are accessible. Budgets may remain high level   |
| 5     | Very strong: Budget transparency is a point of pride, with detailed information readily available and easily accessible reflected in more accountable business clients and more public engagement   |



## 16. Public communication by financial organisations

- a. To what extent do the communication policies of financial organisations and insurance companies promote a culture of trust and integrity across the financial system?
- b. Do directors and senior management of financial entities publicly commit (through, for example, website, annual reports, media) to anti-corruption and integrity measures?
- c. Do the communication policies of financial organisations and insurance companies include publishing information on anti-corruption and similar initiatives? And do they provide information about their general integrity?

### Guidance questions:

- Are financial organisations and insurance companies (including small finance and insurance companies etc.) following strategies designed to build trust through information and disclosure?
- Is there a risk that the communication policies of individual institutions could undermine other messages about the integrity of the financial system?

| Score | Assessment Public communication by financial organisations   |
|-------|--|
| 1     | Very weak: In general, institutions have no specific communication about financial system focus on integrity.  |
| 2     | Weak: Some reference to the specific aims of preventing corruption.  |
| 3     | Moderate: Communication policies about corruption and integrity have been developed.   |
| 4     | Strong: Communication policies implemented about preventing corruption.  |
| 5     | Very strong: Communicating about the importance of strong integrity systems is a point of pride, with detailed contextual information readily available and easily accessible reflected in more knowledgeable staff, customers and other stakeholders. |

Note: Public Communications by Financial Organisations: Part B talks about whether directors and senior management of financial entities publicly commit via published materials and/or current media channels to anti-corruption and integrity measures.

## 17. Corporate social responsibility (CSR)

Do financial organisations generally have and implement statements of corporate social responsibility? Are they aware of the United Nations Principles of Business and Human Rights and the Sustainable Development Goals (SDGs)? In particular, are they aware of Goal 16 which aims to develop a universal measure of corruption to assist in its detection and prevention.

### Guidance questions:

- To what extent is there transparency of CSR performance? Is there internal or external oversight of reviews undertaken to ensure that the financial organisations meet their corporate social responsibilities?
- Do they have a climate change strategy backed up by policy and specific customer products?
- Is there evidence that the financial organisations and insurance companies have controlling or financial interests in businesses regarded by the public as lacking social responsibility (which may include, for example, companies associated with the country's natural resource exploitation) and, if so, are the principles for investing in or lending to these interests publicly stated and subject to scrutiny?
- Is there open disclosure of any conflicts of interest?

| Score | Assessment Corporate social responsibility  |
|-------|---|
| 1     | Very weak: No statement of corporate social responsibility.   |
| 2     | Weak: Policy statement of corporate social responsibility. No information about lending and investment practices.   |
| 3     | Moderate: Some financial organisations have policy statement of corporate social responsibility, backed up by evidence of initiatives to meet the policy objectives, including some information about social criteria for lending and investment.   |
| 4     | Strong: Statements of corporate social responsibility backed up by robust measures to monitor, report and evaluate the extent that financial organisations strive to meet the objectives set. Transparency about social criteria for lending and investment.                                      |
| 5     | Very strong: Statements of corporate social responsibility exist to implement, monitor and report on corporate social responsibility including regular economic, social and governance reporting, enhancing the brands of the financial organisations and the reputation of the financial system. |

## 18. Public debate on integrity of the financial system

To what extent is the country's oversight policy for the financial sector debated with the different perspectives on the debate publicly available?

### Guidance questions:

- Is there evidence of regular, active public debate on the financial system's management of bribery, corruption and fraud and the activities carried out to strengthen integrity systems? If yes, does the Government participate in this debate?
- To what extent do the media, including social media, act in an informed and responsible way to bring this debate to the attention of the wider public, and does this result in effective security during more volatile or otherwise uncertain periods?
- To what extent is there scrutiny of the roles of the Serious Fraud Office and Police in this area?
- Are there NGOs or special interest groups whose expertise extends to integrity issues in the financial sector? Is there a structure that supports their work?

| Score | Assessment   | Public debate on the integrity of the financial system   |
|-------|--------------|--|
| 1     | Very weak:   | No public debate on the oversight of bribery and corruption within the financial system.   |
| 2     | Weak:        | Minor public debate about bribery and corruption in the financial system, with some media attention.   |
| 3     | Moderate:    | Parliamentary process for discussion of prudential oversight that specifically covers bribery, corruption and fraud backed up by published information.  |
| 4     | Strong:      | Open parliamentary process for discussion of oversight backed up by public consultation and strong media engagement.   |
| 5     | Very strong: | Media assists in the promotion to the public of the role of supervision and in public debate about it, supported by a formal and informal measures that encourage public feedback about the degree of confidence they have in the system and evidence of a growing awareness of how those within the wider economy can generate greater prosperity because of the high degree of financial system integrity. |

## 19. Public debate on bribery and corruption

To what extent is there active and informed public debate on bribery and corruption issues in the financial sector?

### Guidance questions:

- Do the media act in an informed and responsible way to bring these issues to the attention of the wider public?
- To what extent are financial organisations and insurance companies responsive to media and general public requests for information about bribery and corruption issues?
- Do the media investigate issues relating to bribery and corruption in the finance sector and do they publish their findings?

| Score | Assessment Public debate on bribery and corruption   |
|-------|--|
| 1     | Very weak: No public debate on bribery and corruption led by the financial sector.   |
| 2     | Weak: Media publicises cases of bribery and corruption in the financial sector but does not follow up or encourage debate. Information not readily available from financial organisations to better inform the public.   |
| 3     | Moderate: Evidence of published material about monitoring bribery and corruption in the financial sector - media interest in the processes and systems, and some investigative journalism - financial organisations provide some information on request.   |
| 4     | Strong: Evidence of published material about monitoring bribery and corruption in the financial sector followed up by public discussion – leading to strong media interest that encourages discussion which is informed because financial organisations actively participate in discussion.  |
| 5     | Very strong: Proactive publication of systems used to monitor bribery and corruption, including the threat of grand corruption, the findings and the demonstrated evidence of the importance to the financial system of preventing corruption and harvesting the benefits of it with widespread, informed debate with media, financial organisations and regulators participating. |

## HUMAN CAPITAL ASSESSMENT QUESTIONS

### 20. Organisational culture

To what extent is there a culture that supports staff to “just do the right thing” in financial organisations and insurance companies?

#### Guidance questions:

- Are the attributes of good governance apparent in the leadership style adopted by senior executives and board members of financial organisations and insurance companies?
- Does the Board acknowledge its leadership role creating a culture of trust for all employees?
- To what extent do financial organisations and insurance companies maintain a risk culture that raises awareness of corruption risks and provides an environment in which staff with concerns in this area are encouraged and supported to raise concerns with senior management?
- Is there a protected disclosure policy?
- Are confidential avenues and support provided to whistle-blowers? Is there a process in place to follow up on observations of misconduct?
- How strong are financial organisations’ risk management frameworks for identifying and seeking to prevent corruption and unethical behaviour?

| Score | Assessment Organisational culture   |
|-------|---|
| 1     | Very weak: senior leaders do not see a role in creating an integrity culture; it is not a feature of the system.  |
| 2     | Weak: only a few senior leaders exhibit leadership style within the internal culture; “doing the right thing” in difficult situations is viewed as risky.   |
| 3     | Moderate: an integrity culture exists, but not consistently throughout senior leadership such that employees may feel vulnerable about “doing the right thing”.   |
| 4     | Strong: almost all senior leaders adopt this style focused on “doing the right thing” and the culture of trust has permeated most parts of key institutions - confidentiality and support is provided to whistle-blowers and staff choose to work in the financial sector because of a perception that there is an integrity culture.                       |
| 5     | Very strong: a general commitment to and pride in having a culture where staff, directors and third parties working in the financial sector are supported to learn from experience the best way to do the right thing -reflected in external reporting, branding material, through treatment of staff and customers, and incorporated in growth strategies. |

## 21. Auditing the risk culture

To what extent is there acceptance of the importance of internal and external audit of financial organisations and insurance company risk culture, including a focus on matters relating to whether staff members are adhering to risk culture policies in the relevant area?

Guidance question:

- Are internal and external auditors aware of staff training and programmes designed to provide knowledge about preventing bribery and corruption and about ways of building a culture of integrity?
- Do auditors report to the Board on the risk culture?

| Score | Assessment Auditing the risk culture   |
|-------|--|
| 1     | Very weak: Financially focused audits fail to focus on risks to the integrity culture.                         |
| 2     | Weak: Risk culture is audited, but sporadically and/or ineffectively (e.g. does not focus on staff practices). |
| 3     | Moderate: Internal OR external audit of risk culture as it affects staff, but rarely both.                     |
| 4     | Strong: Evidence of regular and effective audits of risk culture reported to the Board.                        |
| 5     | Very strong: Regular audits identify areas for improvement and identify opportunities.                         |

Note – There is a general expectation that the right thing is done, and any untoward behaviour is mentioned and addressed. Whilst there might not be any official measures undertaken through employee agreements and it may be implicit within the New Zealand culture to do the right thing, incentivising integrity-promoting behaviour guards against complacency and serves as a reminder of the standards set and expected.

## 22. Incentives for anti-corruption and integrity-promoting behaviours

To what extent are there drivers, (including, policies and effective mechanisms such as whistleblowing) to support the right behaviour for management and other staff that promote high integrity standards and discourage inappropriate behaviour?

### Guidance questions:

- Do staff performance agreements drive/support the detection of bribery and corruption and encourage whistleblowing? Are there sanctions for inappropriate behaviour, such as engaging in bribery, including facilitation payments, and corrupt practice?
- Are there effective measures in place for identifying personnel taking part in forms of bribery and corruption, and is there public evidence that measures to address, and end bribery/corrupt activities are being implemented (including dismissal of staff with references that describe inappropriate behaviour)?
- Are there effective measures in place to discourage offshore facilitation payments (due to our vulnerability)?
- Are the prosecutions of financial institution services personnel for corrupt activities effective, and is there evidence of effective prosecutions in recent years?
- Is there a process for collecting evidence of any unauthorised private enterprise activity by financial institution and insurance company employees when such activity may be in conflict with the institution's activities?

| Score | Assessment Incentives for anti-corruption and integrity promotion behaviour   |
|-------|---|
| 1     | Very weak: Staff performance agreements silent on definitions of bribery and corruption, whistle blowing, observance of relevant legislation on whistleblowing.   |
| 2     | Weak: Staff performance agreements include some definitions of bribery and corruption and whistle blowing, though generally failing to keep up to date.   |
| 3     | Moderate: Staff performance agreements include some definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, while remaining silent about facilitation payments overseas.  |
| 4     | Strong: Staff performance agreements include clear definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, and are clear that facilitation payments overseas are illegal.   |
| 5     | Very strong: Staff performance agreements include clear definitions of bribery and corruption with sanctions for non-observance, define and encourage use of whistleblowing channels, and are clear that facilitation payments overseas are illegal. These agreements are backed up with training and there are clear messages promoting ethical practices in job descriptions, job advertisement and other marketing material. |

## 23. Merit-based appointments and promotions

To what extent are personnel appointed and promoted through a transparent, objective, and meritocratic process? Are the results of the process respected and credible?

### Guidance questions:

- Are there strong formal appraisal processes, and independent oversight?
- Is there an established, independent, transparent, and objective appointment system for the selection of financial institution personnel?
- Is there clear and transparent policy for promotion?
- Is special attention paid to the selection and oversight of personnel in sensitive positions, including officials and personnel in financial organisations' procurement, contracting, financial management, and commercial management?
- Is the number of financial organisations' personnel accurately known?
- Are pay rates and allowances for financial institution personnel openly published as far as is consistent with the protection of personal privacy?

| Score | Assessment Merit-based appointments and promotions   |
|-------|--|
| 1     | Very weak: Limited or no transparency about staff structure.   |
| 2     | Weak: Some transparency around staff structure and promotion.  |
| 3     | Moderate: Transparency of appointment system with some transparency around staff structure, promotion and pay.   |
| 4     | Strong: Transparency of appointment system, clear listing of senior management roles on websites including staff involved in investment with published policies around oversight, including oversight of personnel in sensitive positions.   |
| 5     | Very strong: Promotion of ethical, merit-based appointments systems, with proactive disclosure of the process, clear listing of senior management roles on websites including staff involved in investment, with published policies around oversight, including oversight of personnel in sensitive positions - publication of salaries and allowances combined with a description of the integrity system to attract staff. |



## 24. “Know your Employees”

How effective are the “know your employees (KYE)” policies (covering the Board and associated third parties) in the financial system, and how sound is the monitoring and oversight over these?

### Guidance questions:

- Do financial organisations and insurance companies have explicit “know your Board/Executive/Employees” policies? Are these published?
- Are there good supervisory arrangements ensuring compliance with these rules?
- Does the staff code of conduct include the KYE policy?
- Is KYE policy incorporated into staff training for board/ executive and hiring management and are independent advisors used when there is a conflict e.g. Board hirers?

| Score | Assessment “Know Your Employees”   |
|-------|--|
| 1     | Very weak: Limited explicit policy across the financial sector for “know your employee” provisions, and inadequate supervisory arrangements ensuring KYE rules are followed.   |
| 2     | Weak: Observance of “know your employee” within the law, with limited supervisory arrangements for ensuring compliance.  |
| 3     | Moderate: A published KYE policy, integrated into procedures; adequate supervisory arrangements for ensuring compliance - independent body used in cases of conflict.  |
| 4     | Strong: A published KYE policy included in the staff code of conduct and staff hiring and training procedures followed up by regular review of the process.  |
| 5     | Very strong: Promotion of the policy for a strong “know your employee” backed up in the staff code of conduct and staff performance agreements, incorporated into staff training as well as procedures followed up by regular review of the process. |

## CUSTOMERS ASSESSMENT QUESTIONS

### 25. “Know your customers”

How effective are the “know your customers” including knowing their business, policies in the financial system, and how well regulated are they?

#### Guidance questions:

- Do financial organisations publish explicit “know your customer” policies?
- Are there good supervisory arrangements ensuring compliance with KYC rules and AML legislation?
- Does the staff code of conduct include the KYC policy? Is it in staff performance agreements?
- Is KYC policy incorporated into staff training and integrated into sensitive procedures such as lending, investing, deposit-taking, contracting and commissioning?
- Are policies and practices covering lending, investing, deposit-taking, contracting and commissioning regularly reviewed for compliance with the KYC rules?

| Score | Assessment “Know your customers”  |
|-------|---|
| 1     | Very weak: Limited explicit policy across the financial sector for “know your customer” provisions, and inadequate supervisory arrangements ensuring KYC rules are followed.  |
| 2     | Weak: Observance of “know your customers” within the law, with limited supervisory arrangements for ensuring compliance.  |
| 3     | Moderate: A published KYC policy, integrated into sensitive procedures; adequate supervisory arrangements for ensuring compliance.  |
| 4     | Strong: A published KYC policy included in the staff code of conduct and staff performance agreements, incorporated into staff training and integrated into sensitive procedures followed up by regular review of the process.  |
| 5     | Very strong: Promotion of the policy for a strong “know your customer” backed up with introductory information to customers about the value to them of this policy and demonstrating that it is backed up in the staff code of conduct and staff performance agreements, incorporated into staff training as well as into sensitive procedures. |

## 26. Trusted regulatory bodies

To what extent does the public trust the financial system to identify and tackle corruption? (Note: as this is about the public, the question is included in the Customer subject though it will be assessed in the context of the entire Financial Integrity System Assessment, and in how trust is built, gained and maintained across financial system).

### Guidance questions:

- Does the public have confidence in the integrity of regulators to carry out their roles in a way that builds public trust? Does this ensure trust in financial organisations?
- Is the financial sector managing the diverse and constantly changing New Zealand population profile including the training of staff, where an increasing proportion have been born outside New Zealand, and customers about New Zealand's culture of integrity?

| Score | Assessment Trusted regulatory bodies  |
|-------|---|
| 1     | Very weak: No public trust in financial organisations tackling bribery and corruption.  |
| 2     | Weak: Public expectation and concern that financial organisations should be more active in tackling bribery and corruption.   |
| 3     | Moderate: Public confident that more prudent financial organisations are tackling bribery and corruption, but not monitored and not being done at all by many in sector.  |
| 4     | Strong: Public confident that most NZ financial organisations are tackling bribery and corruption, but not monitored.   |
| 5     | Very strong: Public have high expectation and faith in financial organisations' focus and action in bribery and corruption; regulators resourced, and accountable by independent publicly reported oversight and this is incorporated into communications with customers. |

## 27. Consistent due diligence

To what extent is due diligence implemented consistently across the range of customers, when financial organisations seek to identify the source of funds being paid to them to ensure these are not the proceeds of crime or corruption? Are systems effective in addressing money laundry?

### Guidance questions:

- How are suspicious transactions identified for appropriate and deeper scrutiny?
- Are anti-corruption policies implemented in ways that unduly advantage or disadvantage classes or groups of customers, possibly creating a downstream relaxation of diligence when dealing with certain other classes or groups?
- Are anti-corruption policies implemented to be sensitive to individual circumstances?

| Score | Assessment Consistent due diligence  |
|-------|--|
| 1     | Very weak: Due diligence to identify sources of funds is occasional.   |
| 2     | Weak: There is regular due diligence across the financial sector to identify the sources of funds and to ensure that these are not the proceeds of crime and corruption and there is published information for customers about the process.  |
| 3     | Moderate: There is regular due diligence and there is an explicit policy to inform customers of the process and of their rights.   |
| 4     | Strong: There is regular due diligence and an explicit policy to protect customer information, to inform customers of the process around the management of suspicious transactions and their rights, including a process enabling them to see any information that is held about them. |
| 5     | Very strong: The financial system co-creates and supports a standard for regular due diligence across the financial sector meeting the expectations for score 4.   |

## 28. Featuring integrity in promotional materials

To what extent do financial organisations and insurance companies emphasise their strong integrity systems in their marketing including in any available presentation tools?

### Guidance questions:

- Do financial organisations and insurance companies have and promote robust codes of conduct towards customers?
- Is there concern that the potential damage to reputation from an occasional failure in an institution's integrity systems outweighs the benefits of promoting them?

| Score | Assessment Featuring integrity in promotional materials  |
|-------|--|
| 1     | Very weak: Promotion only covers the prudential supervision of the financial system.   |
| 2     | Weak: There is customer-friendly-language promotion material about the security of the financial system backed up by the description of the complaints system.   |
| 3     | Moderate: There is evidence of the promotion of financial system policies that start with a customer focus as part of the development of services and products.  |
| 4     | Strong: Materials promote organisations' policies that start with a customer focus as part of the development of services and products, backed up by customer surveys and a complaints system - staff members are trained to listen to customers and to the front-line staff who engage with customers and to use the information thus obtained to strengthen integrity systems. |
| 5     | Very strong: There is a clear "tone at the top" across the sector that acknowledges the value of deposits, emphasising that customers are the centre of financial transactions and the importance of their requirements being met - the demonstration of strong organisational integrity systems as vital to a strong financial system reflected in the marketing strategy.      |

## 29. Demonstrating integrity in dealings with customers

To what extent do financial organisations and insurance companies provide remedies for customers disadvantaged by errors, breaches of codes of conduct or other lapses in the conduct expected of them?

### Guidance questions:

- To what extent does the financial sector ensure the fair treatment of customers given the imbalance between the sector and the financial literacy of its customers?
- To what extent does the financial sector use plain language and communicate with customers on the customer's terms?
- To what extent does the financial sector value and promote internal and external dispute resolution procedures? Is there evidence of incident tracking, support strategy, risk assessments that cover disputes, dedicated support and remediation?
- Are independent dispute resolution schemes given resources for promotional and prevention activities as well as for complaint resolution?
- Are there formal arrangements such as annual reports and case notes to enable financial organisations and insurance companies to learn from their mistakes? Is their experience used by senior management?
- Are interest registers routinely updated with any conflicts of interest disclosed and effectively managed?

| Score | Assessment Demonstrating integrity in dealings with customers  |
|-------|--|
| 1     | Very weak: There are limited dispute resolution processes and promotion.   |
| 2     | Weak: There are some customer-friendly-language dispute resolution systems.  |
| 3     | Moderate: The dispute resolution processes are backed up by customer surveys and linked into complaints system, including external dispute resolution services with power to enforce their decisions.  |
| 4     | Strong: In addition to meeting the expectations for score 3, organisations' dispute resolutions schemes take a customer focus for the development of services and products.  |
| 5     | Very strong: There is a clear "tone at the top" across the sector that emphasises that: customers are the centre of financial transactions and the importance of their requirements being met; disputes are resolved; and the promotion of processes to achieve this are regarded as vital to an authentic and effective marketing strategy. |

## OPERATIONS ASSESSMENT QUESTIONS

### 30. Expectations of operational managers

To what extent are operational managers at all levels trained in recognising and handling corruption and risks to integrity?

Are managers expected to apply this knowledge, including overseeing how their staff apply it?

#### Guidance questions:

- Is there top-down commitment and culture among operational areas of financial organisations and insurance companies, including training in recognising and handling risks to integrity through inadequate anti-bribery and anti-corruption practices?
- Do expectations and training address all the possible areas of operational managers' different responsibilities in regard to
  - a) the seven tools to prevent corruption, and,
  - b) the implementation of the seven developmental factors?
- Is there evidence that they apply this knowledge in the field?
- Do they apply this knowledge in a way to maximise the financial integrity system and through this, maximise the beneficial outcomes for the financial sector?

| Score | Assessment Expectations of operational managers   |
|-------|---|
| 1     | Expectations are expressed in limited-reach, unspecific ways such as through published statements about wanting to gain and retain the trust of their customers and the public in general.  |
| 2     | Senior-level expectations are clear; directors and senior management across the financial system sign up to the objective of doing trusted business as part of their performance agreements.  |
| 3     | There is a top-down commitment across the financial system to engage all employees in a trust culture backed up by training around 'the New Zealand way' including on the ethical dilemmas faced as part of working in the sector.  |
| 4     | There is a top-down commitment across the financial system to a trust culture backed up by explicit policies about preventing bribery and corruption. There is training at each level and within each operational division around the identification of bribery and corruption and the ethical dilemmas faced as part of working in the sector. |
| 5     | Organisations clearly demonstrate that there are robust steps in place in operational areas to prevent corruption, including clear channels for whistleblowing and for staff complaints to be heard and addressed and this is reflected on their websites and other public material when services and products are marketed.                    |

### 31. Tracking the risk of corruption and value of integrity systems

To what extent are rigorous processes in place and measured, including the regular deployment of trained professionals, to monitor corruption and other integrity risks in operations?

**Guidance questions:**

- To what extent do regulations and financial organisations monitor the value their integrity system delivers?
- Do the rigorous processes also describe and evaluate the achievement of improved performances from strong integrity systems?

| Score | Assessment Tracking the risk of corruption and the value of integrity systems   |
|-------|---|
| 1     | Very weak: Financial system has small percentage of trained professionals to monitor fraud.   |
| 2     | Weak: Financial system with trained professionals focused on managing the risk of narrowly defined prevention of fraud, bribery and corruption.   |
| 3     | Moderate: Financial system with professionals trained to ensure that there is an effective corruption prevention process that measures, monitors and reports cases of fraud, bribery and corruption.  |
| 4     | Strong: Financial system with trained professionals to ensure that there is an effective corruption prevention process that measures, monitors and reports cases of fraud, bribery and corruption with continuous review processes about key areas for improvement and what works best.                                       |
| 5     | Very strong: All elements above plus leadership from the top and within the financial system to promote the effectiveness of corruption prevention programmes and to assist customers to build their lives and businesses because of the certainty and security that comes from the strong integrity of the financial system. |

### 32. Use of external advisers and contractors

How well do integrity expectations and practices extend to the use of external advisers and other contractors working in the financial system?

**Guidance questions:**

- To what extent do financial organisations and insurance companies set clear terms for the actions of external advisers and contractors to prevent bribery, corruption or fraud?
- When external contractors and advisers are employed for particular operational roles, does due diligence in their appointment and delivery ensure they are subject to the same integrity risk checks and the same levels of scrutiny as for paid employees?

| Score | Assessment Use of external advisers and contractors   |
|-------|---|
| 1     | Most private contractors across the financial system have written contracts.  |
| 2     | Private contractors employed throughout the financial system usually have a formal contracting/ engagement process and are engaged with a written contract.   |
| 3     | Private contractors employed throughout the financial system usually have a formal contracting/ engagement process and are engaged with a written contract that includes provisions defining unacceptable activities including bribery and corruption.  |
| 4     | Private contractors employed throughout the financial system are subject to the same due diligence as permanent staff working at the same level through a formal contracting/ engagement process that includes the same provisions as in staff agreements, including codes of conduct that define unacceptable activities including bribery and corruption. |
| 5     | The financial system promotes (including on its website), its strong and robust contracting approach, where contractors observe the same strong integrity policies as permanent staff, as part of its contracting/tendering processes and contract schedules.   |

### 33. Helping build the national reputation

To what extent are the operations of the financial system designed to support, improve and realise the benefits of New Zealand's reputation for integrity?

#### Guidance questions:

- Is there agreement and coordination across financial organisations, insurance companies and different parts of the financial sector to prevent corruption?
- Is there shared commitment to New Zealand's reputation for integrity, and to working together as a sector to maintain that reputation?
- Are initiatives such as the "New Zealand Story" ([www.nzstory.govt.nz](http://www.nzstory.govt.nz)) valued and used in promoting the services of financial organisations and insurance companies?

| Score | Assessment Helping build the national reputation  |
|-------|---|
| 1     | Very weak: The financial system promotes the Transparency International (TI) corruption perceptions index as evidence of New Zealand's reputation for low corruption with limited coordination across organisations.  |
| 2     | Weak: The financial system demonstrates some commitment to maintaining New Zealand's reputation for low corruption, promoting its strong standing on the TI corruption perceptions index and other measures traditionally used by the sector to measure country risk though cooperation across organisations remains limited.   |
| 3     | Moderate: The financial system has an active anti-corruption and pro-integrity strategy consciously aligned to the benefits to be gained from New Zealand's reputation. It demonstrates that it is aware of key steps to prevent corruption and create an environment that is hostile to corruption and there is some effort to adopt them throughout the sector - many financial organisations coordinate formally or informally to pursue this strategy as a financial sector strategy.   |
| 4     | Strong: The financial system is actively working through the steps to prevent corruption and create an environment that is hostile to corruption throughout the sector with participation from most relevant organisations amid evidence of better overall performance because of growth strategies based on stronger financial integrity systems.  |
| 5     | Very strong: The New Zealand financial system promotes its focus on integrity through actions to prevent corruption and create an environment that is hostile to corruption; encourages organisations throughout the country to follow suit - the financial system is well coordinated on this focus and looking to extend coordination to other relevant sectors - presentation and promotional material explain the value of this to customers and for New Zealand's overseas reputation. |



## RISK MANAGEMENT & MONITORING ASSESSMENT QUESTIONS

### 34. Risk management frameworks

Have financial organisations and insurance companies developed robust measures for reporting bribery, corruption and fraud as part of their risk management frameworks?

#### Guidance Questions:

- Do financial organisations and insurance companies regularly review and update their risk management frameworks as different forms of corruption are identified and different prevention measures designed to address this?
- Are adequate resources given to the development and implementation of the framework so that they can identify areas of risk to the financial system in a timely way?
- Are the frameworks developed in conjunction with internal and external auditors?
- Are the Regulators involved in the development of the framework?
- Do the Regulators review the output and discuss with the financial organisations?
- Are the frameworks and reports reviewed and signed off by the Board?
- Are results of reviews used to effect changes?
- Are high level results communicated to all stakeholders including customers?

| Score | Assessment Risk management frameworks  |
|-------|--|
| 1     | Very weak: New Zealand's financial system is not focused on the risk of bribery/corruption.  |
| 2     | Weak: New Zealand's financial system pays only a cursory attention to the application of risk frameworks that identify, monitor, report and mitigate bribery/corruption.   |
| 3     | Moderate: New Zealand's financial systems shows evidence of application of risk management frameworks in conjunction with independent internal and external parties who have expertise about the nature of bribery/corruption but the risk management approach is not systematically reviewed. |
| 4     | Strong: Monitoring, reporting, auditing, internal audit, legal advice all contribute to the understanding of bribery and corruption as it relates to the financial sector, reviewed and updated after input from independent internal and external parties.                                    |
| 5     | Very strong: Financial organisations and Regulator promote robust risk management frameworks as integral to meeting shareholder and customer confidence and security.  |

### 35. Responding to international monitoring

How well do New Zealand financial organisations, insurance companies and regulators heed and value international assessments (such as those by the OECD, FAFT, UN, IMF, World Bank and Transparency International) as they relate to the prevention of bribery and corruption and to strengthening their integrity?

#### Guidance Question:

Are there plans to address those areas identified likely to bring improvement?

| Score | Assessment  |
|-------|---|
| 1     | Very weak: New Zealand's financial system treats international monitoring as a necessary compliance activity.   |
| 2     | Weak: New Zealand's financial system takes time to understand the findings of international monitoring, while pushing out the timeline for changing in response.  |
| 3     | Moderate: New Zealand's financial system recognises the value of understanding the findings of international monitoring, and responds to such monitoring and reporting.   |
| 4     | Strong: New Zealand's financial system has interest in the result of international monitoring, and is prepared to publicly acknowledge areas of risk and gaps, responding to the findings and seeking government and customer feedback. |
| 5     | Very strong: New Zealand's financial system actively promotes the knowledge it gains through international monitoring and reporting, responding willingly and openly.   |

### 36. Identifying the value to New Zealand of financial system integrity

**NOTE:** This question is assessed in the context of the entire FISA.

To what extent is there clear understanding, from financial policy to governance to operations, of the importance of New Zealand's reputation for integrity?

#### Guidance Question:

Is there independent monitoring and reporting to demonstrate the consequent benefits of this reputation to New Zealand's financial system, the economy and its participants?

| Score | Assessment  | Identifying the value to New Zealand of financial system integrity |
|-------|---|--|
| 1     | Very weak: Monitoring, reporting and evaluation across the financial system for corruption prevention is uneven or absent.  |  |
| 2     | Weak: Monitoring, reporting and evaluation of corruption prevention is narrowly scoped; it is carried out across the financial system.  |  |
| 3     | Moderate: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with some transparency of findings, including some follow-through to address gaps.   |  |
| 4     | Strong: In addition to meeting the expectations in score 3, there is transparency of findings to the public, stakeholders, government and industry- gaps are acknowledged and steps to address them are specified and adopted – the value of integrity systems is understood by the financial sector which seeks ways of harvesting benefits from them.   |  |
| 5     | Very strong: As the value of the financial integrity system is understood, the benefits of taking steps to prevent corruption are seen as worth incurring the cost of implementing policies such as anti-money laundering as quickly as possible both to reduce the vulnerability of the system to corruption and increase the value to the system because of its integrity; there is promotion of the systems corporate social responsibility. |  |

### 37. Transparent resourcing of financial oversight

How transparent are the resourcing and assessment practices of financial oversight agencies?

#### Guidance questions:

- Are budgets for the RBNZ, FMA and other financial oversight agencies specifically devoted to corruption prevention and strengthening the financial integrity system made publicly available in an accessible format?
- In practice, can citizens, civil society, and the media obtain a reasonable level of information including how oversight of financial and non-financial performance in the financial sector is resourced and its effectiveness assessed?
- Can they see conclusions and resolutions and/or demonstrated evidence of stronger integrity systems as a result of the assessment?

| Score | Assessment Transparent resourcing of financial oversight   |
|-------|--|
| 1     | Very weak: Budgeting, monitoring, reporting and evaluation across the financial system for corruption prevention is absorbed within other budget expenditure categories.   |
| 2     | Weak: Budgets of government financial organisations for activities to prevent bribery and corruption and build integrity systems are available on request, indicating that some monitoring, reporting and evaluation of corruption prevention is carried out across the financial system.  |
| 3     | Moderate: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with some transparency of findings, including some follow-through activities to address gaps.   |
| 4     | Strong: Monitoring, reporting and evaluation of corruption prevention is carried out across the financial system with transparency of findings to the public, stakeholders, government and industry. Gaps are acknowledged as well as steps to address them.   |
| 5     | Very strong: There is promotion of the involvement of the financial system in processes such as corporate social responsibility, open budgeting of government owned agencies and other reporting as a means of ensuring it is building strong integrity systems. This is backed up by system-wide monitoring, reporting and evaluation of corruption prevention, the transparency of reporting findings to the public, stakeholders, government and industry. Gaps are acknowledged and steps to address them are specified and adopted. |

## PROCUREMENT ASSESSMENT QUESTIONS

### 38. Minimising risk in procurement

- a. To what extent do financial organisations maintain policies that minimise the risk of corruption and malpractice in procurement/along their supply chain?
- b. To what extent does the financial system demonstrate strong and consistent standards of practice for addressing integrity risk in contracting, procurement and supply chain analysis?

#### Guidance questions:

- What benchmark standards are required as minimum for financial institutions procurement tenders and contracting?
- Is there independent scrutiny to ensure that procurement policies are being enforced?
- Is there evidence that policies are followed in practice? Is there a gift policy?
- Is adequate attention paid to contractors' compliance with the conditions of the contract once it has been let?
- Is there legislation covering financial system procurement with clauses specific to corruption risks, and are any items exempt from these laws?
- Is there monitoring and management of the financial institution procurement cycle process throughout the supply chain, from assessment of needs, through contract implementation and sign-off, all the way to asset disposal?
- What sanctions are required in procurement contracts to punish any corrupt activities by a supplier?
- What due diligence procedures and standards are contractors required to go through in order to bid for work for financial organisations?
- Are conflicts of interest disclosed and effectively managed?

| Score | Assessment Minimising risk in procurement   |
|-------|---|
| 1     | Very weak: Financial system standards for procurement follow guidelines for tendering with limited attempts to benchmark, limited monitoring and reporting of procurement processes or transactions, supported by limited sanctions against corrupt practice.   |
| 2     | Weak: formal procurement process with no formal oversight of implementation of the winning tender. Finance procurement standards are benchmarked against national standards for procurement; limited monitoring and reporting of procurement processes or transactions, supported by limited sanctions against corrupt practice.  |
| 3     | Moderate: formal procurement process with formal oversight of the contract. Finance procurement standards go beyond legal/regulatory requirements when benchmarked against international standards; with monitoring and reporting of procurement processes or transactions; supported by sanctions against corrupt practice.  |
| 4     | Strong: formal procurement process with formal oversight of contract including of the contracted activities. Finance procurement standards go beyond legal/regulatory requirements, benchmarked against international standards for procurement; with monitoring and reporting of procurement processes or transactions; supported by guidelines, training and resources; with strong sanctions against corrupt practice.                             |
| 5     | Very strong: Contract oversight of processes that are transparent and fair, implemented in line with growth strategies. There are review processes in place to identify areas for improvement. Organisations in the financial system promote their robust procurement systems and insist that they be taken into account when negotiating for interest rates, acquiring investment capital, and when advising shareholders and supply chain partners. |

### 39. Procurement staff training

To what extent are procurement staff, especially project and contract managers, specifically trained and empowered to ensure integrity in the management, reporting and delivery of procurement contracts, in particular that contractors with financial organisations meet their obligations?

#### Guidance questions:

- What is the culture in areas of procurement?
- Do staff regularly attend corporate boxes and/or travel overseas with suppliers?
- Are there clear guidelines for staff around the acceptance of gifts?

| Score | Assessment Procurement staff training  |
|-------|--|
| 1     | Very weak: Limited investment in procurement processes, reflected in narrow training provided or required of procurement staff or managers, with limited reporting on delivery.  |
| 2     | Weak: Some investment in procurement processes, including training provided or required of procurement staff or managers and some reporting on delivery.   |
| 3     | Moderate: Training is expected of procurement managers, with some reporting on the delivery and on how effective the training is in procurement/ supply chain standards being met.   |
| 4     | Strong: Procurement staff, managers and project officers are trained, with performance reporting about supply chain standards being met.   |
| 5     | Very strong: Financial sector industry promotes its robust approach to procurement, the contracting of agents and supply chain management, backed up by evaluations that demonstrate the effectiveness through procurement/supply chain standards being met. |

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## FISA ADVICE THAT PROFESSIONAL SERVICES FIRMS CAN PROVIDE

The preparation of this Financial Integrity System Assessment methodology has shown the depth of practice required before financial institutions can be assured that they have effective processes in place to identify, monitor, report and ultimately prevent bribery, corruption and fraud.

This is not surprising since there is currently limited knowledge and experience of the nature of these activities. For many businesses, the existence of a risk management function is regarded as sufficient protection against risk. In fact, its role is to take leadership for identifying the steps to reduce risk as it is impossible for one section of an organisation to be all-knowing and all-seeing.

In addition, most financial organisations and insurance companies are even less prepared to develop strategies based on the good reputation that comes from practices aimed at building strong integrity systems to prevent corruption. There are benefits from a strong reputation – lower costs, better market access, loyal customers, committed staff, greater access to low cost capital and higher returns on investment. These sit on the reputation balance sheet with great potential to contribute to increased productivity and returns. This means that many financial organisations have un-harvested benefits available to them (for example, access to capital on better terms than present, challenging complacency, future proofing) with limited experience of how to realise these benefits.

Professional services providers can equip themselves to assist. They have some additional expertise and experience already, including capacity in their forensic business divisions with knowledge of how to deal with bribery and corruption when it occurs. This provides them also with the prevention and risk assessment tools. They have team members who can lead growth strategies based on brand, reputation and risk assessments that also identify opportunities.

Currently only a small minority of financial organisations and insurance companies see the risks as priorities and this is a reason that they fail to take advice on risk mitigation.

An even smaller proportion recognise the gains that could be achieved from having strong integrity systems. This suggests that when organisations undertake the upcoming survey, they may be in for a surprise about gaps in their awareness, risk management and strategic opportunities.

This section outlines the way that professional services advisers can help.

The sub-sections below set out the nature of professional advice that enhances the culture and conduct of financial organisations and insurance companies for each of the nine areas covered by the FISA framework.

Even those organisations with the scale to have this advice in-house would benefit from external advice, often provided from a different perspective and with the knowledge gained from solving similar problems across several financial organisations and insurance companies.

An objective of the FISA is that an annual online self-assessment will identify areas for improvement. Transparency International NZ will then work with professional advisors to develop tools that can address these areas. A virtuous cycle of learning will evolve aimed at improving culture and conduct.

## **POLICY ASSESSMENT TOPICS FOR PROFESSIONAL SERVICES ADVICE**

*Getting policy right: fosters and builds integrity, enhances the New Zealand brand and reputation internationally, attracting investment, lowering the cost of capital and ensuring higher returns to local businesses.*

| <b>1. Government oversight of regulatory bodies</b> |   |
|---|---|
| <b>Accounting Advice</b>                            | Provides clients with list of relevant legislation, policy requirements and accountabilities and information about oversight bodies.  |
| <b>Legal Advice</b>                                 | Provides clients with interpretation of relevant legislation, policy requirements and accountabilities.   |
| <b>External Audit</b>                               | Provides government and the market an opinion on whether clients are meeting the relevant legislation and policy requirements.  |
| <b>Risk Management</b>                              | Provides liaison and relationship management, based on the importance of tone at the top backed up by a culture that supports behaviour consistent with this (and “calls out” corrupt behaviours/transactions).   |
| <b>Internal Audit (Assurance &amp; Advice)</b>      | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively backed up with advice on the improvement of control, the control environment, the tone at the top and how it supports a culture of integrity and manages in appropriate behaviour. |

| <b>2. Alignment with international protocols</b> |  |
|--|--|
| <b>Accounting Advice</b>                         | Provides clients with relevant international protocols and information about anti-corruption and bribery standards and principles.   |
| <b>Legal Advice</b>                              | Provides clients with interpretation of relevant international protocols.  |
| <b>External Audit</b>                            | Provides international bodies an opinion on whether clients are meeting the relevant international protocols.  |
| <b>Risk Management</b>                           | Ensures policy for financial sector is aware of international initiatives aimed at addressing grand corruption, including the registration of beneficial owners, the laundering of the proceeds of crime and/or awareness of the actions of politically exposed people (PEPs). |
| <b>Internal Audit Advice</b>                     | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting relevant international protocols are operating effectively.   |

| <b>3. National anti-corruption and integrity policy</b> |   |
|---|---|
| <b>Accounting Advice</b>                                | Is there monitoring of the impact of international corruption on the organisation?  |
| <b>Legal Advice</b>                                     | Provides clients with interpretation of relevant policies and protocols.  |
| <b>Risk Management</b>                                  | Manages and where applicable operates (e.g. whistleblowing) the policy on behalf Board/Executives and provide advice to operational areas on policy implementation.<br>Provides reporting to the Board/Executive. |
| <b>Internal Audit Advice</b>                            | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting policy requirements are operating effectively.   |

| 4. Resourcing regulatory bodies |   |
|---------------------------------|---|
| <b>Accounting Advice</b>        | Takes initiative to provide independent advice to government on cost-value of resourcing.   |
| <b>Legal Advice</b>             | Provides independent advice to government that resourcing enables legislative requirements to be met.   |
| <b>Risk Management</b>          | Analysis of the cost of additional activities that would improve the effectiveness of regulatory policy to address bribery, corruption and fraud based on a risk assessment of preventative practice. |
| <b>Internal Audit Advice</b>    | Provides independent assurance that resources are being used effectively to meet their legislative requirements and relevant Statements of Intent (SOIs).   |

| 5. Continuous improvement    |   |
|------------------------------|---|
| <b>Accounting Advice</b>     | Takes initiative to provide independent advice to government and regulatory/oversight agencies on additional remedies to address bribery, corruption and fraud.   |
| <b>Legal Advice</b>          | Provides independent advice to government about areas where further legislative reform is required.   |
| <b>Risk Management</b>       | Sets up tests of additional activities that would improve the effectiveness of regulatory policy to address bribery, corruption and fraud based on a new risk assessment of preventative practice.  |
| <b>Internal Audit Advice</b> | Includes activities on their regular internal audit programme that enable testing of different preventive/mitigation practices and different hypotheses about ways to increase the value of the gains realised from strong integrity systems. |



## GOVERNANCE ASSESSMENT TOPICS

*Getting it right: builds trust and confidence, and enhances reputation and brand, customer loyalty and market position*

| 6. Tone at the top           |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides advice to clients on governance and conduct disclosure requirements.  |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation, policy requirements and accountabilities.  |
| <b>Risk Management</b>       | Provides management of policy on behalf Board/Executive (for example, conduct) and provides advice to operational areas on policy implementation.<br>Provides reporting to the Board/Executive on policy operation.  |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 7. Adequacy of reporting and auditing |   |
|---------------------------------------|---|
| <b>Accounting Advice</b>              | Provides advice to clients on governance disclosure requirements.   |
| <b>Legal Advice</b>                   | Provides advice to clients on legal and policy reporting requirements.  |
| <b>External Audit</b>                 | Provides an opinion on the disclosures and reporting made by clients.   |
| <b>Risk Management</b>                | Provides adequate and appropriate reporting to the Board/Executive on policy operation.   |
| <b>Internal Audit Advice</b>          | Provides independent assurance to those accountable (Board/Executive) that the controls over information, reporting and disclosure (completeness, accuracy etc.) are operating effectively. |

| 8. Relationship between governing bodies and regulators |   |
|---|---|
| <b>Accounting Advice</b>                                | Provides advice to clients' governing bodies.   |
| <b>Legal Advice</b>                                     | Provides advice to clients' governing bodies on legislative and policy reporting requirements.<br>Provides regulators with advice and information as appropriate on legislative and policy requirements.    |
| <b>External Audit</b>                                   | Provides an opinion on the disclosures and reporting made by clients to regulators.   |
| <b>Risk Management</b>                                  | Provides adequate and appropriate reporting to the Board/Executive on policy operation.<br>Provides liaison and relationship management on an operational basis between the Board/Executive and regulators. |
| <b>Internal Audit Advice</b>                            | Provides independent assurance to those accountable (Board/Executive) that the controls over the information, disclosure, reported and shared with regulators are operating effectively.                    |

| 9. Policies for responsible investment and lending |   |
|--|---|
| <b>Accounting Advice</b>                           | Provides clients with list of relevant policies and information about responsible lending and investment. |
| <b>Legal Advice</b>                                | Provides clients with interpretation of responsible investment and lending legislation and policies.      |

|                              |   |
|------------------------------|---|
| <b>Risk Management</b>       | Provides advice to management on policy on behalf Board/Executive (including investment and lending) and provides advice to operational areas on policy implementation.<br>Provides reporting to the Board/Executive on policy operation, effectiveness and compliance. |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over policies and codes are operating effectively.  |

## ACCOUNTABILITY ASSESSMENT TOPICS

*Getting it right: demonstrates how we take accountability, act responsibly, continuously improve and support quality and commitment from all, within our financial institutions*

| 10. Regulation of financial organisations |  |
|---|--|
| <b>Accounting Advice</b>                  | Informs and advises clients on risk management policies and practices used to identify bribery and corruption.   |
| <b>Legal Advice</b>                       | Provides clients with interpretation of relevant legislation, regulation policy and codes.   |
| <b>Risk Management</b>                    | Provides advice to management about risk policy on behalf Board/Executive covering legislation, and provides advice to operational areas on policy implementation.<br>Provides legislative and operational compliance.<br>Provides reporting to the Board/Executive on policy operation.   |
| <b>Internal Audit Advice</b>              | Provides independent assurance to those accountable (Board/Executive) that the controls over the management and operation policies with respect to legislation, regulation and code are operating effectively.<br>Provides advice on the improvement of controls and the control environment in respect of legislative and operational compliance. |

| 11. Asset disposal           |   |
|------------------------------|---|
| <b>Accounting Advice</b>     | Provides clients with information and advice on financial and non-financial impacts from asset disposal.  |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation, regulation policy and codes, including disclosure.  |
| <b>External Audit</b>        | Provides an opinion on the asset disposal disclosures and reporting made by clients.  |
| <b>Risk Management</b>       | Where applicable (in conjunction with the finance team) provides management of asset disposal policy and guidance to operations on policy implementation.   |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over asset disposal are operating effectively.<br>Provides advice on the improvement of controls and the control environment in respect of asset disposal operational compliance. |

| 12. Quality of scrutiny  |   |
|--------------------------|---|
| <b>Accounting Advice</b> | Provides clients with information about the requirements of compliance with for example, AML/CFT, bribery and corruption requirements, disclosures. |
| <b>Legal Advice</b>      | Provides clients with interpretation of relevant legislation.   |
| <b>Risk Management</b>   | Provides oversight and support to management of the operational requirements of required policies.  |

|                              |  |
|------------------------------|--|
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |
|------------------------------|--|

| 13. Paying tax               |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides clients with information and advice (including interpretation) about their tax requirements.  |
| <b>Legal Advice</b>          | Provides clients with legal interpretation and advice on application of relevant legislation.  |
| <b>External Audit</b>        | Provides an opinion on tax reporting made by clients.  |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting tax requirements are operating effectively. |

## INFORMATION AND COMMUNICATION ASSESSMENT TOPICS

*Getting it right: Ensures and demonstrates, honesty and fairness and a commitment to continuous improvement. Being open and transparent when things go right or go awry, and how issues are managed and addressed, enhances integrity, brand and reputation and builds confidence that the right thing will be done.*

| 14. Communication about the state of the financial system |  |
|---|--|
| <b>Accounting Advice</b>                                  | Provides commentary to the market (in a general form) based on their research, experience and observations.  |
| <b>Legal Advice</b>                                       | Provides commentary to the market (in a general form) on their research and observations.  |
| <b>External Audit</b>                                     | Provides commentary to the market (in a general form) on the quality of disclosures and reporting made by clients.   |
| <b>Risk Management</b>                                    | Provides information and updates to the Board/Executive on the financial system and potential impacts to the client business.                                    |
| <b>Internal Audit</b>                                     | Provides independent assurance that the controls in place over external communications, including information provided to the market, are operating effectively. |

| 15. Transparency of regulatory bodies' budgets |   |
|--|---|
| <b>Accounting Advice</b>                       | Provides advice to Regulators on their budget (use and management i.e. meeting their Statements of Intent) and reporting and disclosure requirements.                 |
| <b>Legal Advice</b>                            | Provides advice to regulators on their legal obligations in respect of the management and use of their budgets.   |
| <b>External Audit</b>                          | Provides an opinion on the Regulators budget reporting.   |
| <b>Internal Audit Advice</b>                   | Provides independent assurance to those accountable (Regulator/Board/Executive) that the controls in place for meeting budget requirements are operating effectively. |

| 16. Public communication by financial organisations |   |
|---|---|
| <b>Accounting Advice</b>                            | Provides advice to clients on their public communications.<br>Provides commentary to the market (in a general form) based on their research, experience and observations. |
| <b>Legal Advice</b>                                 | Provides legal advice on clients' public communications.  |

|                              |  |
|------------------------------|--|
| <b>External Audit</b>        | Provides an opinion on the disclosures and reporting made by clients.  |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over information, reporting and disclosure to the public (market) are operating effectively. |

#### 17. Corporate social responsibility

|                              |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides advice to clients on their public communications.<br>Provide commentary to the market (in a general form) based on their research, experience and observations.   |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation.  |
| <b>External Audit</b>        | Provides an opinion on the disclosures and reporting made by clients.  |
| <b>Risk Management</b>       | Provides advice to management on corporate social responsibility policy on behalf Board/Executive (including investment and lending) and provide advice to operational areas on policy implementation.<br>Provides reporting to the Board/Executive on policy operation, effectiveness and compliance. |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over corporate social responsibility policies and the information, reporting and disclosure to the public (market) are operating effectively.  |

#### 18. Public debate on integrity of the financial system

|                              |   |
|------------------------------|---|
| <b>Accounting Advice</b>     | Contributes to the debate/lead commentary on the integrity and resilience of the financial system (in a general form) based on their research, experience and observations. |
| <b>Legal Advice</b>          | Contributes to the debate/lead commentary on the integrity and resilience of the financial system (in a general form) based on their research, experience and observations. |
| <b>Risk Management</b>       | Provides information to Board/Executive on the business's integrity and resilience enabling them to contribute to public debate.  |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over the integrity and resilience of the business are operating effectively.        |

#### 19. Public debate on bribery and corruption

|                              |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Contributes to the debate/lead commentary on bribery and corruption issues.  |
| <b>Legal Advice</b>          | Provides clients with legal advice about requests for information about bribery and corruption issues.   |
| <b>Risk Management</b>       | Provides oversight and policy management and operational guidance on bribery and corruption.<br>Provides information and reporting to Board/Executive on how the business manages its obligations in respect of bribery and corruption risk. |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls over the management of bribery and corruption risk are operating effectively.  |

## HUMAN CAPITAL ASSESSMENT TOPICS

*Getting it right: demonstrates that we are firmly committed to and supportive of our greatest resource. Developing our people, investing in their growth and future and being fair and open in how we treat them enhances brand and reputation. They improve efficiency and effectiveness, lowering the cost of business and increase returns.*

| 20. Organisational culture   |   |
|------------------------------|---|
| <b>Accounting Advice</b>     | Works with clients to create strong risk management frameworks that support integrity and ethics and prevent corruption and unethical behaviour.  |
| <b>Legal Advice</b>          | Provides clients with advice on their obligations enabling them to instil the right organisational culture that supports integrity and ethics and prevents corruption and unethical behaviour.  |
| <b>Risk Management</b>       | Provides oversight of and support to management for the operational requirements of policies that enable sound integrity and strong ethics and work to prevent corruption and unethical behaviour.<br>Provides reporting to the Board/Executive.      |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place enabling sound integrity and strong ethics are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 21. Auditing the risk culture |  |
|-------------------------------|--|
| <b>Accounting Advice</b>      | Provides clients with information and advice on recognised good practice and on assessing and measuring and disclosure on risk culture.  |
| <b>Legal Advice</b>           | Provides clients with interpretation of any relevant legislation or recognised good practice.  |
| <b>Risk Management</b>        | Provides oversight of reporting to the Board/Executive about support to management for the operational requirements of required policies.  |
| <b>Internal Audit Advice</b>  | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 22. Incentives for anti-corruption and integrity-promoting behaviours |  |
|---|--|
| <b>Accounting Advice</b>  | Works with clients to identify effective measures that promote ethical behaviour and integrity and those that aid in identifying staff engaging in bribery and corruption.   |
| <b>Legal Advice</b>   | Provides clients with legal advice on creating strong staff performance agreements encouraging whistleblowing.<br>Provides clients with legal assistance in respect of prosecutions of financial institution services personnel for corrupt activities.    |
| <b>Risk Management</b>  | Provides oversight and support to management on the operational requirements of required policies (e.g. Code of Ethics; whistleblowing)  |
| <b>Internal Audit Advice</b>  | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

**23. Merit-based appointments and promotions**

|                              |   |
|------------------------------|---|
| <b>Accounting Advice</b>     | Provides clients with information and advice on those merit-based appointments they have experience in (e.g. Finance, Investments, Treasury, Tax).<br>Provides clients with information regarding the value of strong 'Know your employee' practices.   |
| <b>Legal Advice</b>          | Provides clients with legal interpretation of relevant legislation in respect of merit-based appointments and anti-discrimination requirements.   |
| <b>Risk Management</b>       | Provides oversight of and support to management for the operational requirements of required policies.  |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements with respect to merit-based appointments and anti-discriminatory and 'know your employee' requirements are operating effectively.<br>Provide advice on the improvement of controls and the control environment in this regard. |

**24. "Know your employees"**

|                              |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides clients with information in regard to the value of a strong 'Know your employees' / 'Know your business' policy.  |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation around knowing your employees.  |
| <b>Risk Management</b>       | Provides oversight and support to management of the operational requirements of required policies.   |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that effective controls are in place for meeting legislative and policy requirements in respect of 'Know your employees'.<br>Provides advice on the improvement of controls and the control environment. |

## CUSTOMERS ASSESSMENT TOPICS

*Getting it right: demonstrates that financial institutions are firmly committed to our customers and in meeting their needs. Working with our customers, investing in their growth and future and being fair and open in how we treat them enhance brand and reputation. In turn a positive customer experience supports us to attract investment and reduce our capital costs, thereby increasing returns to customers.*

| 25. "Know your customers"    |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides clients with information about the value of a strong 'Know your customer'/Know your customer's business' policy.  |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation.  |
| <b>Risk Management</b>       | Provides oversight of and support to management for the operational requirements of required policies.   |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements in respect of 'Know your customer'/Know your customer's business' are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 26. Trusted regulatory bodies |   |
|-------------------------------|---|
| <b>Accounting Advice</b>      | Provides regulators with information and intelligence (feedback in general form; results-focused) about their impact and effect in the market.  |
| <b>Legal Advice</b>           | Provides regulators with interpretation of relevant legislation, as required.   |
| <b>Risk Management</b>        | Via the Board and Executive, work with regulators (Relationship Management), providing insight and feedback on the effectiveness of their oversight of the legislation and regulation they are accountable for. Provides oversight and support and interpretation to management of the operational requirements of required policies. |
| <b>Internal Audit Advice</b>  | Provide independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Keeps a list of regulations and meets with regulators as required.<br>Provides advice on the improvement of controls and the control environment.       |

| 27. Consistent due diligence |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides clients with information about the requirements of compliance when undertaking effective due diligence, including enhanced due diligence where required.  |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation.<br>Works with clients to publish an explicit policy on undertaking the required due diligence and in protecting customer information and customers' rights in the management of suspicious transactions. |
| <b>Risk Management</b>       | Provides oversight and support to management on the operational requirements of required policies.   |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment.             |

| 28. Featuring integrity in promotional materials |   |
|--|---|
| <b>Accounting Advice</b>                         | Provides clients with information and advice in respect of promotional material and disclosures.  |
| <b>Legal Advice</b>                              | Provides clients with interpretation of relevant legislation.   |
| <b>Risk Management</b>                           | Provides oversight and support to management on the operational requirements of required policies, including ensuring that promotional material is not misleading, or deceptive and is readily understood by customers.   |
| <b>Internal Audit Advice</b>                     | Provides independent assurance to those accountable (Board/Executive) that the controls in place for promotional materials have integrity, meet policy requirements and operate effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 29. Demonstrating integrity in dealings with customers |   |
|--|---|
| <b>Accounting Advice</b>                               | Provides clients with information and advice to ensure customer dealings and interactions are undertaken with integrity and fairness and all required disclosures are made.   |
| <b>Legal Advice</b>                                    | Provides clients with interpretation of relevant legislation.   |
| <b>Risk Management</b>                                 | Provides oversight, reporting to the Board/Executive, and support to management on the operational requirements of required policies.   |
| <b>Internal Audit Advice</b>                           | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting customer requirements are operating effectively.<br>Provide advice on the improvement of controls and the control environment. |



## OPERATIONS ASSESSMENT TOPICS

*Getting it right: effective and efficient management of resources, lowers the cost of business and increases returns. It demonstrates a commitment to continuously improve and builds confidence in the integrity of the financial system.*

| 30. Expectations of operational managers |  |
|--|--|
| <b>Accounting Advice</b>                 | Provides and assist clients when required with information and training at all levels on identification of bribery and corruption, integrity issues and ethical dilemmas that staff might face.  |
| <b>Legal Advice</b>                      | Works with clients to create explicit policies on preventing bribery and corruption, including channels for whistleblowing and effective complaints process.   |
| <b>Risk Management</b>                   | Provides oversight, guidance and support to management on the operational requirements of required policies.<br>Provides information and reporting to the Board/Executive.   |
| <b>Internal Audit Advice</b>             | Provides independent assurance to those accountable (Board/Executive) that the controls management has in place for meeting requirements are operating effectively.<br>Provides advice to management on the improvement of controls and the control environment. |

| 31. Tracking the risk of corruption and value of integrity systems |  |
|--|--|
| <b>Accounting Advice</b>   | Provides clients with information about the requirements of compliance with for example, AML/CFT, bribery and corruption requirements, disclosures.  |
| <b>Legal Advice</b>  | Provides clients with interpretation of relevant legislation.  |
| <b>Risk Management</b>   | Provides oversight, guidance and support to management on the operational requirements of required policies.<br>Provides information and reporting to those accountable (Board/Executive).   |
| <b>Internal Audit Advice</b>                                       | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

| 32. Use of external advisors and contractors |   |
|--|---|
| <b>Accounting Advice</b>                     | Provides clients with information, intelligence and research and advice on matters of integrity, policies and practices used to identify bribery and corruption and on good practice measures to manage the risk.<br>Advise about communications with clients on what they can and can't provide. |
| <b>Legal Advice</b>                          | Advises and assists clients with due diligence when external contractors are used. Provides information and guidance on advisor employment integrity risk.  |
| <b>Risk Management</b>                       | Provides oversight, guidance and support to management on the operational requirements of required due diligence policies and good practice.<br>Provides information and reporting to those accountable (Board/Executive).  |

|                              |   |
|------------------------------|---|
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for undertaking due diligence for advisors and contractors are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |
|------------------------------|---|

### 33. Helping build the national reputation

|                              |  |
|------------------------------|--|
| <b>Accounting Advice</b>     | Provides clients with information and advice and good practices about the requirements of compliance; with for example, AML/CFT, bribery and corruption requirements, disclosures.   |
| <b>Legal Advice</b>          | Provides clients with interpretation of relevant legislation.  |
| <b>Risk Management</b>       | Provides oversight, guidance and support to management on the operational requirements of required policies.<br>Provides information and reporting to those accountable (Board/Executive).   |
| <b>Internal Audit Advice</b> | Provides independent assurance to those accountable (Board/Executive) that the controls in place for meeting legislative and policy requirements are operating effectively.<br>Provides advice on the improvement of controls and the control environment. |

## **RISK MANAGEMENT AND MONITORING ASSESSMENT TOPICS**

*Getting it right: supports strong and sound governance and its frameworks. Effective risk management and monitoring practices build trust and increase confidence enhancing reputation and brand. Mitigating and managing risk lowers the cost of business and increases returns. It demonstrates a commitment to continuously improve.*

| <b>34. Risk management frameworks</b> |  |
|---------------------------------------|--|
| <b>Accounting Advice</b>              | Provides information, including good practice and benchmarking and encourages regular review of risk management.   |
| <b>Legal Advice</b>                   | Provides clients with legal interpretation of relevant legislation.  |
| <b>Risk Management</b>                | Takes part in national and international professional groups, adhere to the required standards and codes, and actively contribute to the growth and standing of the profession.<br>Undertakes self-review and quality review assessments.  |
| <b>Internal Audit Advice</b>          | Provides independent assurance to those accountable (Board/Executive) that the controls in place for risk management and monitoring are operating effectively.<br>Provides advice on the improvement of controls and the control environment.<br>Joins national and international professional groups and bodies, adhere to the required standards and codes and actively contributes to the growth and standing of the profession.<br>Undertakes self-review and quality review assessments (every 5 years as required by the standards). |

| <b>35. Responding to international monitoring</b> |   |
|---|---|
| <b>Accounting Advice</b>                          | Provides clients with advice, benchmarking and the output and information of international assessments of their integrity.  |
| <b>Legal Advice</b>                               | Identifies areas of international monitoring and reporting and how such assessments can be used in their interests and those of their customers.  |
| <b>Risk Management</b>                            | Provides international assessors and oversight bodies (e.g. Transparency International, FATF, IMF, etc) with the required information, reporting and evidence-based materials as required.<br>Be open and transparent to assessors.         |
| <b>Internal Audit Advice</b>                      | Provides international assessors and oversight bodies (e.g. Transparency International, FATF, IMF, etc) with the required information, reports and evidence-based materials as required.<br>Advises on approach to disclosing to assessors. |

| 36. Identifying the value to New Zealand of financial system integrity |  |
|--|--|
| <b>Accounting Advice</b>   | Provides clients with information and statistics on the value of financial system integrity.<br>Advise clients how to ensure they operate with integrity in their role in supporting New Zealand's financial system.   |
| <b>Legal Advice</b>  | Advise clients how to ensure they operate with integrity in their role in supporting New Zealand's financial system.   |
| <b>Risk Management</b>   | Provides reporting, information and statistics to management of the operations of policies that support integrity and prevent bribery, corruption and unethical behaviour.   |
| <b>Internal Audit Advice</b>   | Provides independent assurance to those accountable (Board/Executive) that the controls in place that support integrity and prevent bribery, corruption and unethical behaviour are operating effectively<br>Provides advice on the improvement of controls and the control environment. |

| 37. Transparent resourcing of financial oversight |   |
|---|---|
| <b>Accounting Advice</b>                          | Provides clients with information and advice (experience, competencies, knowledge and skill set, funding and benchmarking) on how they resource financial oversight (including, key Board and Executive and management roles).<br>Provides clients with information in regard to the value of strong 'Know your Board/Executive/Employee' practices.<br>Provides advice on disclosure, especially where there are unavoidable gaps and shortfalls.                |
| <b>Legal Advice</b>                               | Provides clients with legal interpretation of relevant legislation<br>Provides advice on disclosure, especially where there are unavoidable gaps and shortfalls.  |
| <b>Risk Management</b>                            | Provides information and reporting to Board, Executive and Management on operational deliverables versus resources supplied.  |
| <b>Internal Audit Advice</b>                      | Provides independent assurance to those accountable (Board/Executive) that the controls in place for ensuring resources are being used efficiently and effectively are operating as designed.<br>Provides advice on the improvement of controls and the control environment in this regard.<br>With respect to their own role, provides information and reporting to Board, Executive and Management on their operational deliverables versus resources supplied. |

## PROCUREMENT ASSESSMENT TOPICS

*Getting it right: demonstrates quality and integrity in ethical procurement practices. This builds trust and increases confidence, enhancing reputation and brand. It supports transparent and fair treatment with providers. Mitigating and managing procurement risk lowers the cost of business and increases returns.*

| 38. Minimising risk in procurement |  |
|------------------------------------|--|
| <b>Accounting Advice</b>           | Provides clients with policies and information about standards in procurement.   |
| <b>Legal Advice</b>                | Advises and assists clients with due diligence on procurement, including sound contract management practices.<br>Provides information and guidance on 'associated' integrity risk.   |
| <b>Risk Management</b>             | Provides oversight, guidance and support to management of the operational requirements of required due diligence policies and good practice for procurement and contract management.<br>Provides information and reporting to those accountable (Board/Executive). |
| <b>Internal Audit Advice</b>       | Provides independent assurance to those accountable (Board/Executive) that the controls in place for procurement and contract management are operating effectively.<br>Provides advice on the improvement of controls and the control environment.                 |

| 39. Procurement staff training |  |
|--------------------------------|--|
| <b>Accounting Advice</b>       | Provides clients with advice and assistance on areas of good practice, (e.g. case studies and worked examples).  |
| <b>Legal Advice</b>            | Provides clients with interpretation of relevant legislation to assist with training requirements.   |
| <b>Risk Management</b>         | Provides training, training material, review and support to management of the operational requirements of required policies.<br>Reports to and assist management with training on any identified gaps.   |
| <b>Internal Audit Advice</b>   | Provides independent assurance to those accountable (Board/Executive) that the controls in place for the management of procurement staff (including, effective training, resourcing etc) are operating effectively<br>Provides advice on the improvement in the control environment. |

## GENERAL GLOSSARY

The draft definitions below will be further refined and adapted as part of the assessment.

**Abuse of position** is a form of bribery, corruption or fraud where a person in a position of authority or appointed trust abuses their position for personal or financial gain, or so that someone else loses money or status. The abuse can be through action or inaction.

**Anti-money laundering (AML)** refers to a set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions.

<http://www.investopedia.com/terms/a/aml.asp>

**Assurance engagement** is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.<sup>2</sup>

**Basel Committee on Banking Supervision (BCBS)** is a group of international banking authorities who work to strengthen the regulation, supervision and practices of banks and improve financial stability worldwide.

<http://searchcompliance.techtarget.com/definition/Basel-Committee-on-Banking-Supervision-BCBS>

**Beneficial ownership** refers to the natural person(s) who ultimately own(s) or control(s) a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.<sup>3</sup>

**Base Erosion Profit Sharing (BEPS)** refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. Under the inclusive framework, over 100 countries and jurisdictions are collaborating to implement the BEPS measures and tackle BEPS.

**Bid-rigging** is where bidders for a contract collude on deciding which company should win a bid. This is achieved by agreeing on pricing and other components of the bid. Bid-rigging can include bid rotation, complementary bidding and cover pricing. Bid-rigging can be an offence under cartel or antitrust law if this exists.

**Bid rotation** is where tenders are a continuing opportunity and companies collude to rotate winning bids among themselves so that all the companies benefit over time. Bid rotation is a form of collusion.

**Bribery** is the offering, soliciting, giving or receiving of a financial or other advantage to influence the actions of a person in charge of a public or organisational duty. For an action which is a breach of trust in the business context, this is usually in order to obtain or retain business or to secure an improper advantage. See below for the specific term “foreign bribery”.

**Business Principles for Countering Bribery** is a good practice model for corporate anti-bribery policies and programmes developed through a multi-stakeholder process initiated and led by Transparency International. The Business Principles were first published in 2002 and a third edition was published in 2013<sup>4</sup>.

**Civil Society Organisations (CSOs)** are non-market, non-government entities formed by people with a common interest. It is defined by the OECD as “the multitude of associations around which society

<sup>2</sup> See: [www.iaasb.org/](http://www.iaasb.org/)

<sup>3</sup> See: [www.fatf-gafi.org/media/fatf/documents/reports/Guidance-transparency-beneficial-ownership.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-transparency-beneficial-ownership.pdf)

<sup>4</sup> Business Principles for Countering Bribery (Berlin: TI, 2013)

voluntarily organizes itself and which represent a wide range of interests and ties. These can include community-based organisations, indigenous peoples' organisations and non-government organisations." (OECD, 2006, DAC Guidelines and Reference Series Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation, OECD Paris.)

**Code of conduct** is a policy statement of principles and standards that all company personnel, board members and third parties must follow. It can be applied to or adapted to cover third parties.

**Conflict of interest** is a situation where an individual or the entity for which they work, whether a government, business, media outlet or civil society organisation, is confronted with choosing between the duties and demands of their position and their own private interests.

**Corruption** is the abuse of entrusted power for private gain. International conventions, such as the United Nations Convention Against Corruption have avoided defining corruption, choosing instead to address specific forms of corruption.

**Cronyism** is the favouring of friends. Related to this are clientelism and patronage.

**Cross-selling** is the practice of selling an additional product or service to an existing customer. It is important to ensure that the additional product or service being sold enhances the value to the customer and this is transparent to them.

**Due diligence** is an investigation or audit of a potential business, investment or individual prior to entering into a business agreement or transaction or recruitment or appointment of individuals. Due diligence is an essential part of the anti-corruption programme.

**Distributed Denial-of-Services Attacks** are internet events in which multiple compromised computers or systems are made to attack a single targeted system. By flooding it with incoming messages in order to overload it, the compromised computers cause the target system to shut down. The shutdown results in legitimate users receiving "denial of service" messages when trying to access the targeted site or system.

**Extortion** is a criminal offence of obtaining money, property, or services from a person or an entity by coercion.

**Facilitation Payment** is a financial payment that is made with the intention of expediting an administrative process. It is made to smooth the progress of a service to which the payer is legally entitled, even without making such a payment. In some countries, these payments are considered normal, whereas in other countries, facilitating payments are prohibited by law and considered bribes.

**Financial Action Task Force (FATF)**, is an intergovernmental organisation founded in 1989 on the initiative of the G7 to develop policies to combat money laundering. In 2001 the purpose expanded to act on terrorism financing.

<https://www.google.co.nz/search?q=fatf+meaning&oq=fatf+meaning&aqs=chrome..69i57j0.4512j0j7&sourceid=chrome&ie=UTF-8>

**Financial institutions** for this assessment include financial organisations (see below) plus financial market regulators, supervisors and oversight agencies.

**Financial organisations** for this assessment refers to entities which borrow, lend, invest money and/or provide insurance. This includes banks, non-bank deposit takers, building societies, credit unions, some lenders other than NBDTs, KiwiSaver providers, insurance companies, and other fund managers.

**Financial sector** includes financial organisations and payment and settlement systems

**Financial system** includes the banking and finance sector and its regulators. In New Zealand, these are: Reserve Bank of New Zealand (RBNZ), the Financial Markets Authority (FMA), the Commerce Commission, the Department of Internal Affairs (DIA), Trustee Corporations, MBIE, the Banking Ombudsman, the Insurance and Financial Services Ombudsman, Financial Services Complaints Limited and Financial Disputes Limited, Financial Services Council (FSC), the Bankers' Association and other professional bodies, and financial organisations. Excluded for the purposes of FISA (out of scope) are: credit card issuers, providers of store credit cards and similar, and financial advisors.

**Foreign bribery** For the purposes of FISA, foreign bribery is defined in accordance with Article 1 of the OECD Anti-Bribery Convention, as "to offer, promise or give away any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.

**Foreign Corrupt Practices Act 1977 (FCPA)** is a United States federal law (15 U.S.C. §§ 78dd-1, et seq.) generally prohibiting US companies and citizens and foreign companies listed on a US stock exchange from bribing foreign public officials to obtain or retain business. The FCPA also requires "issuers" (any company including foreign companies) with securities traded on a US exchange to file periodic reports with the Securities and Exchange Commission to keep books and records that accurately reflect business transactions and to maintain effective internal controls.

**Fraud** is intentional deception made for personal gain or to damage another individual or organisation.

**Gift** is money, goods, services or loans given ostensibly as a mark of friendship or appreciation. A gift is professedly given without expectation of consideration or value in return. A gift may be used to express a common purpose and the hope of future business success and prosperity. It may be given in appreciation of a favour done or a favour to be carried out in the future.

**Grand Corruption** is a Transparency International working definition of a public official or other person who deprives a particular social group or substantial part of the population of a state of a fundamental right; or causes the state or any of its people a loss greater than 100 times the annual minimum subsistence income of its people; as a result of bribery, embezzlement or other corruption offence.

**Impunity** is exemption from punishment when using power or self-appointed authority to take resources intended for another purpose.

**Integrity pact** is a tool developed by Transparency International for preventing corruption in public contracting, comprising an agreement between the government agency offering a contract and the enterprises bidding for it that they will abstain from bribery, collusion and other corruption.<sup>5</sup>

**Integrity system** refers to the features of the entity's structure that contribute to transparency and accountability. This system is more effective in preventing corruption when these features are across policy, governance, financial performance, information and communication, human capital, customers, operations, monitoring and procurement of the entity or sector.

**Kickback** is a payment or in-kind bribe given in return for facilitating a commercial transaction such as a contract or a loan. The term kickback describes its most common form where a portion of a contract fee from an awarded contract is kicked-back to the person approving the contract.

**"Know your customer"** refers to a policy followed by responsible advisors to ensure their customers are trustworthy. It entails the collection of background information about their customers.

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<sup>5</sup> See: [www.transparency.org/whatwedo/tools/integrity\\_pacts](http://www.transparency.org/whatwedo/tools/integrity_pacts)



**Libor** is the London Inter-bank Offered Rate.

**Libor/price fixing** involved a scheme by bankers at many major financial institutions to manipulate the Libor for the purposes of profit.

**New Zealand Story** (see [www.nzstory.govt.nz](http://www.nzstory.govt.nz)) is a government initiative to help New Zealand companies gain a competitive advantage in overseas markets by building a strong, consistent profile for New Zealand exporters in international markets. Its launch was funded in Budget 2013. The lead agencies for the New Zealand Story are Tourism NZ, NZ Trade and Enterprise, and Education NZ.

**Passive bribery** is the request or receipt, directly or indirectly, by a person of any undue advantage or the promise thereof for themselves or for anyone else, or the acceptance of an offer or a promise of such an advantage, to act or refrain from acting in breach of their duties.

**Politically exposed person (PEP)** is a term describing someone who has been entrusted with a prominent public function which presents a higher risk for potential involvement in bribery and corruption by virtue of their position and the influence that they may hold. The term PEP is typically used referring to customers in the financial services industry, while the term “foreign official” is used to refer to the risks of third-party relationships in all industries.

**Related-party transaction** is a business transaction or arrangement between two parties who associated in a relationship before the transaction.

**Responsible lending code** is a set of guidelines being increasingly refined which focus financial organisations on the integrity attributes of their borrowers (“know your customers”).

**Risk assessment** is a systematic and continuing process for identifying and analysing inherent bribery and corruption risks to enable an assessment of their likelihood and impact on the enterprise’s ability to achieve its commitments and objectives. Within the framework of the risk approach of the enterprise, the results of risks assessments are used to decide the controls to be implemented to mitigate the risks.

**Stakeholders** are those groups that affect and/or could be affected by an organisation’s activities, products or services and associated performance. This does not include all those who may have knowledge of or views about an organisation. Organisations will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns.<sup>6</sup>

**Subsidiary** is a separate legal entity in which the company (the parent or holding company) has a controlling equity interest or exercises a de facto controlling interest, such as the right to nominate members of the board of directors and thereby control the board, founder/priority shares, preferred shares, a controlling foundation or other devices.

**Theft** is dishonestly appropriating the property of another with the intention of permanently depriving them of it. This may include the removal or misuse of funds, assets or cash.

**Tone from the top** is the way the top leadership – the chair and CEO as well as board members and senior management – communicate and support by their actions, the enterprise’s commitment to values including openness, honesty, integrity, and ethical behaviour and in particular the anti-corruption programme.

**Trading in influence** is also called “influence peddling”, occurs when a person who has real or apparent influence on the decision-making of a person exchanges this influence for an undue advantage. The person with influence has the intent of persuading the decision-maker to act in a

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<sup>6</sup> See: <http://www.accountability.org/standards/>

desired manner. The emphasis here is on “undue” to distinguish it from legitimate influence seeking such as lobbying or advocacy. The decision-maker may be unaware of the undue influence.

**Transparency** refers to the openness of an organisation about its values and policies reflected in monitoring, recording and publishing relevant information about performance that has an impact on its customers, staff and stakeholders. Transparency is regarded as a key part of a strong integrity system as it is a valuable tool for preventing corruption.

**Undue advantage** is an improper or unfair benefit whether promised, given or received.

**Whistleblowing** is the sounding of an alarm by an employee, director, or external person, with the aim of revealing neglect or abuses within the activities of an enterprise (or one of its third parties) or other organisation that threaten the public interest or the entity’s integrity and reputation.

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#### **Abbreviations not covered in glossary**

**CFT - Countering the Financing of Terrorism**

**FISA – Financial Integrity System Assessment**

**IMF - International Monetary Fund**

**NBDT – Non-bank deposit takers**

## FISA CONSULTATION

### Organisations Providing Feedback as at 5 June 2019

|                                  |  |
|----------------------------------|--|
| AML Solutions                    | Institute of Internal Auditors NZ          |
| ASB                              | Insurance and Financial Services Ombudsman |
| Audit New Zealand                | Ministry of Justice                        |
| Bankers Association              | Kensington Swan                            |
| Banking Ombudsman                | Kiwi Bank                                  |
| BNZ                              | KPMG                                       |
| Budgeting Services               | IMF  |
| Business NZ                      | Making Strategy Happen                     |
| CAANZ                            | MBIE                                       |
| Chapman Tripp                    | Minter Ellison                             |
| Commerce Commission              | New Zealand Bankers Association            |
| Consumers Institute              | New Zealand Story                          |
| Co-op Money New Zealand          | New Zealand Super Fund                     |
| Deloitte                         | NZLS                                       |
| DIA                              | NZTE                                       |
| EMA                              | Office of the Auditor General              |
| FAFT                             | Omni-risk                                  |
| Financial Services Federation    | Payments NZ                                |
| Fiducia                          | PwC  |
| Financial Services Council (FSC) | RBNZ                                       |
| Financial Services Disputes Ltd  | Russell McVeagh                            |
| FINTECH                          | SFO  |
| FMA                              | The Treasury                               |
| Grant Thornton                   | Transparency International (Berlin)        |
| IMF                              | Transparency International NZ              |

### Document version and consultation history

| VERSION | DATE          | CONSULTATION / FEEDBACK   |
|---------|---------------|---|
| 1.      | 2016          | Transparency International New Zealand/ FISA Assessors/ Project Director                      |
| 2.      | 16 May 2017   | RBNZ/FMA/Treasury/MBIE/Financial Services Federation/ NZBA/ Co-op Money NZ                    |
| 3.      | 11 July 2018  | IIA NZ / Audit Firms / Legal Firms/ CAANZ/ NZ Super   |
| 4.      | 6 June 2018   | Stephanie Hopkins and Suzanne Snively   |
| 5.1     | 24 March 2019 | Suzanne Snively, Bernie McKendrey, Tim Downes, FMA, RBNZ                                      |
| 5.2     | 14 April 2019 | Suzanne Snively, Bernie McKendrey, Lucy Jones, Cameron Smith, Michael Littlewood, Henry Lynch |
| 5.3     | 5 June 2019   | Suzanne Snively, Alison Paterson, Bernie McKendrey, David Dunsheath                           |

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