

Henry admitted NAB was still selling rip-offs while royal commission raged

By [Adele Ferguson](#)

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National Australia Bank chairman Ken Henry privately told consultants in the midst of the Hayne royal commission he was “confident” the bank was selling products that ripped off its customers and would eventually trigger compensation.

In revelations that have immediately sparked calls for a parliamentary inquiry into the relationship between the big banks and the nation’s largest accounting firms, Dr Henry and dozens of other executives last year told NAB’s auditors EY about serious shortcomings in its risk management.

Their candid comments are detailed in a trove of internal documents leaked by a whistleblower concerned about what they claim is the bank’s lax approach to risk management, slow customer remediation and conflicts of interest between the bank and its consultants.

The depth of the issues raised by the NAB executives was not always reflected in a corresponding report prepared by EY for the \$83 billion bank last year as part of a review mandated by the Australian Prudential Regulation Authority and subsequently provided to the regulator.

Labor MP Deborah O’Neill on Thursday moved to call a parliamentary inquiry into the conduct of the big audit firms including the management of conflicts of interest.

“This is a serious and confronting global issue and these [NAB] revelations only reinforce my concerns,” she said.

“There is a potential conflict of interest because the big four sell consultancy services to the same companies whose accounts they are meant to be independently auditing.”



Is confident that there are products currently being sold now that they will need to remediate in the future (highlighted an example of SMSF borrowing to invest in managed funds)

Dr Henry, a former Treasury secretary, made his comments five months before his disastrous appearance at the Hayne royal commission in a confidential meeting with EY (formerly known as Ernst & Young).

Confidential minutes of the meeting held in June last year record Dr Henry saying he was “confident” that “there are products currently being sold now that they will need to remediate in the future”. He singled out a self-managed superannuation product as an example.

NAB on Thursday declined to answer questions about the specific products Dr Henry was referring to, saying it didn’t have access to the minutes but pointed to tightened rules for SMSF lending. Dr Henry did not comment.



Believes the only real improvement he could see was more time for reflection. For example his ideal structure would be for every fourth committee they should have 1 hour - with no papers, where they 'sit on the couch' and think through which risks they had not considered yet.

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The then chief executive Andrew Thorburn, in his interview with EY, said the only improvement he would suggest for a key risk committee would be “more time for reflection”.

He suggested every fourth meeting become an “on the couch” session with other executives with no agenda to consider risks.

He also said he felt “current risk settings are about right” and wanted to ensure the bank did not become too risk averse.

Banks and other financial institutions have promised to improve their conduct after a series of damaging revelations in the royal commission but the leaked documents suggest NAB faces challenges changing its culture.

The leaked documents reveal a raft of problems with the bank's systems. On an internal “traffic light” system rating risk, the documents show the bank's regulatory, operational and compliance processes persistently attracted “amber” and “red” ratings. Some had been red for at least 20 months, while others had been amber for at least 35 months.

Dr Henry alluded to a long-running red rating only on compliance risk in his royal commission testimony. Dr Henry's testimony to the inquiry culminated in the announcement of his resignation and he is due to step down from the board later this year.

EY has been NAB's auditor for 13 years but has also won millions of dollars worth of non-audit services according to the bank's annual report.

A leaked proposal letter written by EY in 2018 pitching for the job show it offered to provide early communication of findings based on a “no surprises approach”.

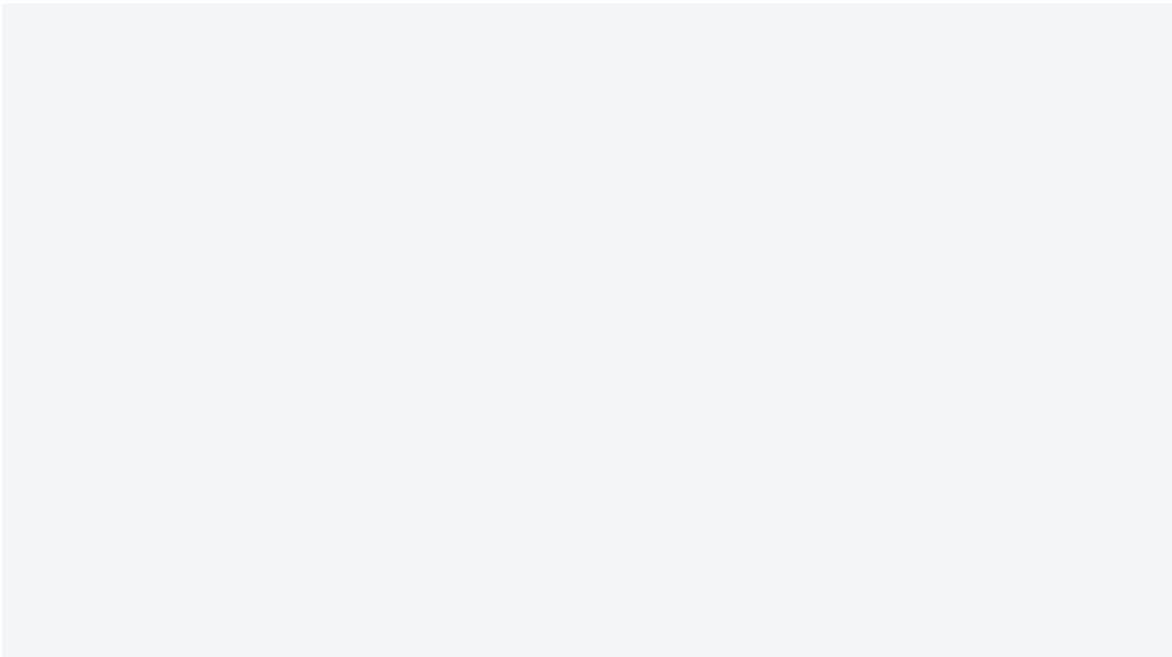


EY declined to answer questions about its dealings with NAB, which covered its role as both auditor and consultant, citing client confidentiality.

NAB's chief risk officer Shaun Dooley said the bank had policies to protect the independence of its external auditor and had been open about its issues with non-financial risk management and compliance.

He pointed to a November report in which NAB admitted it had too often failed to put customers first and its approach to compliance had lacked rigour. The report also said NAB had been slow to develop an effective approach to managing conduct risk, something Dr Henry admitted during the royal commission.

NAB also said the APRA review was considered part of EY's audit work. However, the team who worked on the review were from EY's risk advisory services not auditing practice.



APRA said in a statement that such reviews were just one method of surveillance.

A well-placed source said the independence requirement for the review could be met by either an external or internal person.

The leaked documents suggest EY's consultants questioned NAB's ability to handle the challenges exposed by the royal commission.

"The bank focuses only on addressing the issues through Band-Aid fixes rather than investing in long-term solutions," says an internal log of EY's observations after interviewing executives and assessing various internal documents.

One document shows the NAB Wealth division, which included rampant misconduct by financial planners including mis-selling, inappropriate advice and other contraventions dating back to 2009, was still an issue in 2018 and was rated amber.

Ongoing issues regarding NAB's compliance with anti-money laundering and counter-terrorism finance (AML/CTF) laws were also exposed, including a breach involving 1000 customers of its Antares Capital Partners and MLC Investments business.

"After working for many years in the financial services industry, I'm tired of turning a blind eye to the lies and unethical behaviour so executives can keep their bonuses,' the whistleblower said.

"I've decided to take a big risk in disclosing a cache of highly sensitive NAB documents after losing patience with APRA, ASIC and the royal commission in exposing the true extent of failures in NAB's risk management practices ... a symptom of cultural decadence and operational incompetence."

He said he hoped politicians would move to address the problems.

Adele Ferguson's book *Banking Bad* is out August 5. Click [here](#) for more information



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Adele Ferguson is a Gold Walkley Award winning investigative journalist. She reports and comments on companies, markets and the economy.
