



Independent Review of the Commonwealth Bank of Australia's Remedial Action Plan

Progress in Addressing Prudential Inquiry Recommendations

Prepared by Promontory Australasia (Sydney) Pty Ltd, an IBM Company

Third Report

30 April 2019

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Independent Review of the Commonwealth Bank of Australia's Remedial Action Plan

Third Report

April 2019

Promontory Australasia (Sydney), an IBM Company (**Promontory** or **we**) has been engaged as the Independent Reviewer of Commonwealth Bank of Australia's (**CBA's**) Remedial Action Plan (**RAP**) to address the Recommendations of the Australian Prudential Regulation Authority's (**APRA**) Prudential Inquiry into CBA.

In accordance with the terms of the Enforceable Undertaking (**EU**) agreed between APRA and CBA on 30 April 2018, Promontory's independent review role requires us to report on a quarterly basis:

- The status of CBA's compliance with certain requirements of the EU; and
- Items in the RAP that CBA considers are nearing completion.

This is Promontory's third report (**Third Report**) in relation to execution of the RAP. The Report provides an update on actions CBA has taken to execute the RAP in the period from 1 December 2018 to 31 March 2019. It also provides an update on CBA's program management of the RAP.

A representative of CBA has reviewed a draft version of this Report for the purposes of identifying possible factual errors. Promontory is responsible for final judgement on all views and information in this Report.

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Contents

EXECUTIVE SUMMARY	6
1. INTRODUCTION.....	10
1.1. BACKGROUND	10
1.2. THE REMEDIAL ACTION PLAN	11
1.3. PROMONTORY'S INDEPENDENT REVIEWER ACTIVITIES	13
1.4. REPORT STRUCTURE	14
2. PROGRAM DEVELOPMENTS	15
2.1. PROGRAM PROGRESS.....	15
2.2. KEY PROGRAM DEVELOPMENTS	18
2.2.1. Board and Executive Leadership Oversight	19
2.2.2. Program Governance	19
2.2.3. Program Design and Management	21
2.2.4. Risk and Assurance Oversight.....	26
2.3. ONGOING CHALLENGES AND THE ROAD AHEAD	27
2.3.1. Managing Competing Priorities.....	27
2.3.2. Maintaining Momentum	28
2.3.3. Effective Project Execution and Governance Disciplines	28
2.3.4. Resourcing	30
2.4. FOCUS AREAS	31
3. BOARD GOVERNANCE THEME MILESTONES.....	33
3.1. STATUS OF BOARD GOVERNANCE THEME MILESTONES	33
3.2. BOARD GOVERNANCE THEME MILESTONE ASSESSMENT OUTCOMES.....	36
3.2.1. Assessment of Recommendation 1 Milestone	36
3.2.2. Assessment of Recommendation 2 Milestone	36
3.2.3. Assessment of Recommendation 4 Milestones.....	37
4. MANAGEMENT GOVERNANCE THEME MILESTONES.....	39
4.1. STATUS OF MANAGEMENT GOVERNANCE THEME MILESTONES.....	39
4.2. MANAGEMENT GOVERNANCE THEME MILESTONE ASSESSMENT OUTCOMES	41
4.2.1. Assessment of Recommendation 6 Milestone	41
4.2.2. Assessment of Recommendation 19 Milestone	42
5. OPERATING MODEL (3LOA) THEME MILESTONES	44
5.1. STATUS OF OPERATING MODEL (3LOA) THEME MILESTONES	44
5.2. OPERATING MODEL (3LOA) THEME MILESTONE ASSESSMENT OUTCOMES.....	45
5.2.1. Assessment of Recommendation 10 Milestone	45
6. RISK APPETITE, TAXONOMY AND STANDARDS THEME MILESTONES	47
6.1. STATUS OF RISK APPETITE, TAXONOMY AND STANDARDS THEME MILESTONES.....	47
6.2. RISK APPETITE, TAXONOMY AND STANDARDS THEME MILESTONE ASSESSMENT OUTCOMES ...	50
6.2.1. Assessment of Recommendation 12a Milestone	50

6.2.2.	Assessment of Recommendation 12b Milestone	51
6.2.3.	Assessment of Recommendation 12c Milestone.....	52
7.	ACCOUNTABILITY AND CONTROLS DELIVERY THEME MILESTONES	54
7.1.	STATUS OF ACCOUNTABILITY AND CONTROLS DELIVERY THEME MILESTONES.....	54
7.2.	ACCOUNTABILITY AND CONTROLS DELIVERY THEME MILESTONE ASSESSMENT OUTCOMES	56
7.2.1.	Assessment of Recommendation 12e Milestone	56
7.2.2.	Assessment of Recommendation 12f Milestone	57
7.2.3.	Assessment of Recommendation 16 Milestone	57
8.	CUSTOMER OUTCOMES THEME MILESTONES	60
8.1.	STATUS OF CUSTOMER OUTCOMES THEME MILESTONES	60
8.2.	CUSTOMER OUTCOMES MILESTONE THEME ASSESSMENT OUTCOMES	62
8.2.1.	Assessment of Recommendation 15 Milestone	62
9.	CULTURE, CAPABILITY AND CONSEQUENCES THEME MILESTONES	64
9.1.	STATUS OF CULTURE, CAPABILITY AND CONSEQUENCES THEME MILESTONES	64
9.2.	CULTURE, CAPABILITY AND CONSEQUENCES THEME MILESTONE ASSESSMENT OUTCOMES.....	69
9.2.1.	Assessment of Recommendation 22 Milestone	69
9.2.2.	Assessment of Recommendation 25c Milestone.....	71
10.	PROGRAM EXECUTION THEME MILESTONES.....	72
10.1.	STATUS OF PROGRAM EXECUTION THEME MILESTONES	72
10.2.	PROGRAM EXECUTION THEME MILESTONE ASSESSMENT OUTCOMES.....	75
10.2.1.	Assessment of Recommendation 20 Milestone	75
10.2.2.	Assessment of Recommendation 31 Milestone	77
10.2.3.	Assessment of Recommendation 33a Milestone	77
10.2.4.	Assessment of Recommendation 33b Milestones	79
10.2.5.	Assessment of Recommendation 34 Milestone	80

Definitions

3LoA	Three Lines of Accountability
APRA	Australian Prudential Regulation Authority
BAC	Board Audit Committee
BEAR	Banking Executive Accountability Regime
BRC	Board Risk Committee
BROP	Better Risk Outcomes Program
BROP CRO	The Program's Chief Risk Officer
BU	Business Unit
BU/SUs	Business Units and Support Units
CBA	Commonwealth Bank of Australia
CCO	Chief Control Officer
CEO	Chief Executive Officer
CRO	Chief Risk Officer
EGM	Executive General Manager
ELT	Executive Leadership Team
EU	Enforceable Undertaking
First Report	Promontory's First Report dated 28 September 2018
GA&A	Group Audit and Assurance
GDF	Group Delivery Framework
GM	General Manager
Inquiry Report	The Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report
IPP	Investment Prioritisation Process
KPI	Key Performance Indicator
NFR	Non-Financial Risk
NFRC	Non-Financial Risk Committee
OR&CR	Operational Risk and Compliance Risk
PMO	Project Management Office
Program	Better Risk Outcomes Program
Promontory	Promontory Australasia (Sydney) Pty Ltd, an IBM Company

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

RAP	Remedial Action Plan
RAS	Risk Appetite Statement
RemCo	Board Remuneration Committee
Reporting Date	31 March 2019
Reporting Period	1 December 2018 to 31 March 2019
RMA	Risk Management Approach
RMI	Risk Management Implementation
Second Report	Promontory's Second Report dated 20 December 2018
STVR	Short-Term Variable Remuneration
SU	Support Unit
Theme	A shared theme of a series of Recommendations
Third Report	Promontory's Third Report dated 30 April 2019

Executive Summary

This is the third report (**Third Report** or **Report**) required of Promontory as Independent Reviewer under paragraph 13 of the Enforceable Undertaking (**EU**) given by the Commonwealth Bank of Australia (**CBA**) to the Australian Prudential Regulation Authority (**APRA**) on 30 May 2018. It follows our First Report¹ dated 28 September 2018 (**First Report**), and Second Report² dated 20 December 2018 (**Second Report**).

The Third Report sets out our observations on CBA's activities on the Remedial Action Plan (**RAP**), (as required by paragraph 12 of the EU), between 1 December 2018 to 31 March 2019 (the **Reporting Period**). The status of RAP Milestones is reported as at 31 March 2019 (the **Reporting Date**).

The Program was on-track at the Reporting Date, with all 156 Milestones either delivered to Promontory or on schedule to be delivered by the due dates set out in the RAP³.

The Better Risk Outcomes Program (**BROP** or **Program**) has mostly completed **design** activity. By the Reporting Date:

- CBA had **started or completed work** on **52 (of 54)** Design Milestones⁴.
- CBA had submitted Milestone Closure Packs to Promontory evidencing **completion of work** on a total of **47** Design Milestones (28 of which were received during the Reporting Period).
- Based on a review of Closure Packs, other documents and interviews with key stakeholders, **Promontory had assessed** a total of **31** Design Milestones as complete and effective (16 of which were assessed during the Reporting Period). We had **not yet completed our assessment** of **16** Design Milestones (most of which were delivered at the end of the Reporting Period).

Each of the Design Milestones assessed as complete and effective provides a sound basis for achieving the Target State for the *Inquiry Report* Recommendation to which it relates. Together, these Milestones provide a sound basis for achieving the Program's overall objectives. The designs are, however, in some instances high level. We have, therefore, foreshadowed in relation to a total of 24 Design Milestones (15 of which were assessed as complete and effective during the Reporting Period) our intention to focus, when assessing related Implement and Embed Milestones, on how particular design features have been addressed.

Implementation activity began in earnest during the Reporting Period. By the Reporting Date:

- CBA had **started or completed work** on **51 (of 55)** Implement Milestones.

¹ Promontory's First Report is available [here](#).

² Promontory's Second Report is available [here](#).

³ Milestones are considered to not be on-track where either the Closure Pack has not been delivered to us by the due date for that Milestone as set out in the RAP, or, in relation to Milestones where Closure Packs are not yet due for delivery, the Program at the Reporting Date has identified issues which require escalation and intervention by Management to progress back to schedule.

⁴ We received a final piece of evidence and formally assessed Milestone 33a.1 as complete and effective on 5 April 2019. For the purposes of this Report we consider the Milestone to have been assessed as complete and effective in the Reporting Period.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

- CBA had submitted Milestone Closure Packs to Promontory evidencing **completion of work** on a total of **22** Implement Milestones (17 of which were received during the Reporting Period).
- Based on a review of Closure Packs, other documents and interviews with key stakeholders, **Promontory had assessed** a total of **nine** Implement Milestones as complete and effective (six of which were assessed during the Reporting Period). We had **not completed our assessment of 13** Implement Milestones (most of which were delivered at the end of the Reporting Period).

Embed activity began during the Reporting Period. By the Reporting Date, **CBA had started work on seven (of 47) Embed** Milestones. Work had not been completed on any Embed Milestones.

Program progress by Theme is set out in Table 1.

Table 1: Milestone Progress by Theme as at the Reporting Date (by number of Milestones)

Theme	Work Not Started	Work In Progress	Closure Pack Submitted to Promontory		Milestone Assessed as Complete and Effective	Total ⁵
			Assessment Not Started	Assessment Underway		
Board Governance	6	3	4	1	6	20
Management Governance	3	4	1	4	7	19
Operating Model (3LoA)	2	2	1	1	2	8
Risk Appetite, Taxonomy and Standards	4	4	1	1	6	16
Accountability and Controls Delivery	3	3	1	0	3	10
Customer Outcomes	5	4	1	2	3	15
Culture, Capability and Consequences	12	16	9	0	6	43
Program Execution	11	5	2	0	7	25
TOTAL	46	41	20	9	40	156

CBA's commitment to addressing the *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report* (the **Inquiry Report**) Recommendations in a timely and comprehensive way remained strong throughout the Reporting Period as the focus of the Program transitioned more fully from design to implementation.

The Program continued to display many of the characteristics of a successful remediation program, as discussed in the First and Second Reports. Board and Executive Committee oversight remained strong, as did Line 1 executive sponsorship. The Program continued to benefit from the secondment of staff from Business Lines into the central BROP Team. Culture, and bringing about cultural change, continued to play a central role in the design and roll out of the Program.

⁵ Due to the addition of two Milestones to the Program Execution Theme, the total number of Milestones differs from that reported in Promontory's Second Report.

Several changes to the Program's governance arrangements, to reflect the move to implementation, were made during the Reporting Period. The new governance arrangements place increased responsibility for successful Program execution on the Business Units and Support Units (**BU/SUs**).

During the Reporting Period, the Program continued to work on ensuring it met the *Inquiry Report's* expectations that clear project objectives, detailed project planning, comprehensive resourcing planning, clear accountability and committed multi-year budgets are in place to ensure Milestones will be delivered on time and with the right outcomes.

The Program reviewed the RAP and improved its understanding of dependencies between activities in the RAP and between the RAP and other programs underway across CBA.

Program management also continued to mature.

Changes were foreshadowed to the central BROP Team. Effective use was made of the Risk Management Implementation (**RMI**) Program as the vehicle for rolling out a number of Milestones. Appropriate attention was paid to addressing resourcing risks and ensuring the Program's systems and technology needs were on track to be met. Delivery risk assessments continued to mature. The Program also continued to recognise the important role effective communication plays in supporting the RAP through the implementation phase.

Changes were again made to Program oversight and assurance. In recognition of the transition to implementation, Line 2 responsibilities across the Program were reallocated and redefined. Line 3 is also incorporating a risk-based audit of Program-related changes into its FY20 audit plan.

The implementation phase which the Program has now entered will play a critical role in ensuring the Program's long-term success and effectiveness.

That success and effectiveness will require the Program to engage with and capture the hearts and minds of all employees about the need for change, equip them with tools they understand and can use to make those changes, and ensure those tools can and are being used in the same way across the Group. In an organisation the size of CBA, the difficulty of doing this should not be underestimated.

The challenges CBA faces in coming months are similar to those it has faced in previous Reporting Periods. Maintaining momentum and ensuring appropriate and sufficient resourcing continue as challenges. As the breadth and depth of the Program expands, the importance of ensuring effective program execution and governance disciplines are in place will also intensify. Close central monitoring and tracking will increase in importance, as will ensuring simplicity and sustainability, effective program risk and assurance oversight, and focused program governance.


We urge the Board and Management to continue to be vigilant in ensuring the challenges that the Program faces are being addressed in an effective way.

An additional, significant and overarching challenge for the Program in coming months will be delivering the RAP in the context of the competing regulatory priorities CBA faces. The review of Program fundamentals directed by the Board during the Reporting Period (the **Foundational Review**) will be an opportunity to better understand and address this challenge and its impact. The Foundational Review, designed to ensure the changes the Program is making are sustainable, will consider the foundational elements needed to support an effective risk management framework in the context of the significant recent increase in risk and regulatory matters in which CBA is engaged, the Group's capacity to absorb that change and the capability of both Line 1 and Line 2 to support sustainable outcomes.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019



We consider it appropriate for the Board and Executive Leadership to give the Foundational Review the highest priority. In considering the Review's findings and recommendations, we expect the Board and Executive Leadership would apply a forward-looking perspective that emphasises the importance of minimising the risk of repeating the compliance failings of the past.

1. Introduction

1.1. Background

APRA announced a Prudential Inquiry into CBA on 28 August 2017 to examine whether governance, culture and accountability practices at CBA had contributed to a series of incidents that led to adverse publicity and regulatory scrutiny.

In its final report, published on 30 April 2018, the Inquiry identified a series of shortcomings and made 35 Recommendations to address those shortcomings.

In conjunction with the release of the *Inquiry Report*, APRA accepted an EU offered by CBA. The EU required CBA to develop the RAP to address the Inquiry's Recommendations.

CBA engaged Promontory as the Independent Reviewer required under the EU. APRA confirmed the appointment on 29 June 2018.

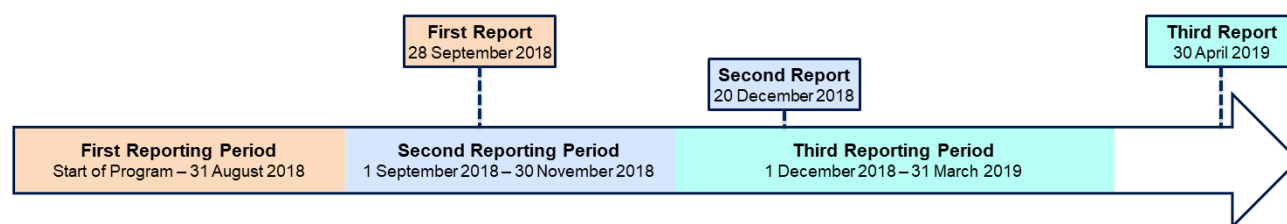
As Independent Reviewer, Promontory is required to report to APRA on a quarterly basis about the status of compliance with the EU and the Milestones⁶ in the RAP that CBA considers are nearing completion. Our reports describe these matters as at the last date of the month before the report is due to be delivered.

This is our Third Report. It covers the Reporting Period (1 December 2018 to 31 March 2019)⁷. The status of Milestones and other Program developments is reported as at the Reporting Date (31 March 2019).

Promontory also delivered its First Report to APRA on 28 September 2018 and its Second Report on 20 December 2018.

Our reports and the periods they covered are set out in Figure 1.1 below.

Figure 1.1: Timeline of Report Delivery and Reporting Periods



Further detail about the background to our engagement is set out in Chapter 1 of the First Report.

⁶ The actions CBA intends to take to address the Inquiry's Recommendations.

⁷ The Reporting Period for the Third Report is one month longer than in previous Reports. This change has been made to align the Reporting Date with the end of the quarter, when a significant number of Milestones are due in the future. Future Reports will revert back to a three month Reporting Period.

1.2. The Remedial Action Plan

As described in Chapter 2 of the First Report, the RAP organises the *Inquiry Report's* 35 Recommendations into the following eight themes (**Themes**):

- Board Governance;
- Management Governance;
- Operating Model (3LoA);
- Risk Appetite, Taxonomy and Standards;
- Accountability and Controls Delivery;
- Customer Outcomes;
- Culture, Capability and Consequences; and
- Program Execution.

The RAP describes actions in relation to each Recommendation as either Design, Implement or Embed Milestones⁸.

The Program is the program of work CBA has developed to deliver the RAP. It comprises nine work streams corresponding to the eight Themes noted above, and an additional work stream (Enabling Systems, Data and Reporting) with responsibility for managing and overseeing technology, analytics and data support across each of the Themes⁹. The Program is managed by a central team (the central BROP Team) supported by a network of Execution Leads and staff across CBA.

As described in our First Report, once CBA considers it has completed a Milestone, the central BROP Team delivers a Closure Pack to Promontory that includes relevant artefacts evidencing Milestone completion.

The number of Milestones due for delivery to Promontory by the Reporting Date for each future report is set out by Theme in Table 1.1 below.

During the Reporting Period, as a result of change requests sought by the Program and endorsed by Promontory, the number of Milestones increased from 154 to 156. Due dates for the delivery of four Milestones (Milestones 11.1, 12b.3, 12c.2 and 20.2) were also extended. The reasons for this are set out below in Section 2.1.

⁸ Design Milestones define a Group-wide approach to address each Recommendation. Implement Milestones generally relate to the roll-out or launch of that approach. Embed Milestones are when the operational effectiveness of the approach is demonstrated on a sustainable basis.

⁹ No Milestones have been assigned to this work stream.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

Table 1.1: Number of Milestones Scheduled to be Delivered by Reporting Date and Theme

Reporting Date	Number of Milestones Scheduled To Be Delivered								Total
	Board Governance	Management Governance	Operating Model (3LoA)	Risk Appetite, Taxonomy & Standards	Accountability and Controls Delivery	Customer Outcomes	Culture, Capability & Consequences	Program Execution	
August 2018	0	0	0	2	0	1	2	0	5
November 2018	4	5	1	2	0	1	3	3	19
March 2019	7	7	3	4	4	4	10	6	45
June 2019	1	2	0	3	0	3	1	1	11
September 2019	2	1	1	0	0	2	6	3	15
December 2019	3	3	1	2	3	2	5	4	23
March 2020	0	1	1	0	2	0	5	0	9
June 2020	0	0	0	3	1	1	1	1	7
September 2020	0	0	0	0	0	0	1	3	4
December 2020	3	0	1	0	0	1	3	3	11
March 2021	0	0	0	0	0	0	6	1	7
TOTAL	20	19	8	16	10	15	43	25	156

Program progress on Design, Implement and Embed Milestones is discussed in Section 2.1.

Most Design Milestones had been delivered by the Reporting Date. Most Implement Milestones are scheduled to be delivered during 2019. Most Embed Milestones are scheduled to be delivered from the end of 2019 onwards.

Further information on the RAP and CBA's approach to executing the RAP is set out in Chapter 2 and 3 of the First Report.

1.3. Promontory's Independent Reviewer Activities

Our activities and approach during the Reporting Period continued as described in Chapter 4 of the First Report.

We continued to meet with CBA and APRA representatives on a regular basis to discuss the status of compliance with the EU, and major risks and issues we were identifying through our monitoring and assessment work.

We continued to monitor CBA's progress in executing the RAP by reviewing Program status reports to understand project delivery risks and issues. We also attended weekly project management meetings with representatives of the central BROP Team, and BROP Governance Forums in December, February and March. We received briefings on the proposed approach to key Milestones and Recommendations. We also held a second 'Lessons Learnt' session with members of the central BROP Team to discuss experiences and improvements in our engagement with the Program.

Following the public release of our Second Report, we also met with CBA's Board to highlight the key challenges and risks the Program faces as it progresses. We noted the importance of maintaining momentum, simplicity and sustainability, and assurance over the Program in particular.

During the Reporting Period, we attended a meeting of the Executive Leadership Team (**ELT**) Non-Financial Risk Committee (**NFRC**) as observers. Promontory representatives also attended, as observers, the Executive Manager Better Bank Leadership Offsite.

We also participated in the following briefings and updates:

- Briefings from the leads of a number of work streams, including the Culture, Capability and Consequences and Enabling Systems, Data and Reporting work streams. These briefings were intended to assist us in understanding the processes the Program was following and to prepare us for the delivery of Closure Packs.
- A deep dive session on the changes that will be made to RiskInSite – CBA's risk management system – as a result of the Program. We will continue to deep dive on other aspects of the Enabling Systems, Data and Reporting work stream in coming months.
- A briefing from the CBA strategic communications team. This briefing outlined activities and plans to cascade regular ongoing communications related to the Program throughout the organisation.
- Briefings from Group Audit and Assurance (**GA&A**). These briefings covered Line 3's observations on Program management and the proposed GA&A audit plan for FY20.

During the Reporting Period, we continued to assess whether Milestones had been completed in line with the Closure Criteria and whether activity to close each Milestone had provided a sound basis for achieving the Target State for the Recommendation to which the Milestone relates.

The assessments involved reviews of the Closure Packs and additional evidence, including interviews and phone calls with staff engaged in preparing the Closure Packs.






In a number of cases, we actively challenged whether the actions described in the Closure Packs provided a sound basis for achieving the Target State.

In some cases, following the challenge, the Program made design changes. In other cases, our assessment that a Milestone was complete and effective was made on the understanding that related aspects of the assessment would be reviewed at the implementation stage associated with the Recommendation.

This Report sets out, by Theme, our observations and findings in relation to our monitoring and assessment activity during the Reporting Period, including the outcomes of our challenge.

We summarise the Program's progress in completing each Milestone at the Reporting Date using the Reporting Scale set out in Table 1.2.

Table 1.2: Reporting Scale

Indicator	Description of Progress
	Work to deliver Milestone has not commenced
	Work to deliver Milestone has commenced but has not yet been completed
	Work to deliver Milestone has been completed by CBA but Promontory's assessment has not yet commenced
	Promontory's assessment has commenced but has not yet been completed
	Milestone has been completed and assessed by Promontory as effective

Further information on Promontory's approach is set out in Chapter 4 of the First Report.

1.4. Report Structure

The remainder of this Report is structured as follows:

- **Chapter 2** summarises Program progress as at the Reporting Date, key developments in the Program during the Reporting Period, our observations on how the Program is being managed, and the areas on which the Program should focus moving forward.
- **Chapters 3 to 10** report Milestone progress for each Program Theme and describe the outcomes of the Milestone assessments we completed during the Reporting Period.

2. Program Developments

At the Reporting Date, the Program remained on-track.

CBA's commitment to addressing the *Inquiry Report* Recommendations in a timely and comprehensive way remained strong as the focus of the Program transitioned more fully to implementation.

CBA has taken steps to address many of the challenges we identified in the First and Second Reports. Nonetheless, some of these challenges remain. Others have emerged.

This Chapter provides a high-level overview of CBA's progress in implementing the RAP.

The Chapter then comments on how the Program is being managed, specifically noting:

- Key developments in program management and governance during the Reporting Period;
- Ongoing challenges and risks the Program faces; and
- Areas for Program focus.

2.1. Program Progress

Overall, the Program remains on-track for Milestones to be completed by the due dates set out in the RAP.

A large number of Milestones were delivered to and assessed as complete and effective by Promontory during the Reporting Period.

During the Reporting Period:

- The Program delivered Closure Packs for 45 Milestones (28 of which were Design Milestones and 17 of which were Implement Milestones).

Closure Packs for 19 Milestones (15 Design Milestones and four Implement Milestones) were delivered in December 2018.

Closure Packs for six Milestones (one Design Milestone and five Implement Milestones) were delivered in February 2019.

Closure Packs for 20 Milestones (12 Design Milestones and eight Implement Milestones) were delivered in March 2019.

Closure Packs for all Milestones were delivered before the due dates set out in the RAP.

- Promontory assessed 22 Milestones (16 Design Milestones and six Implement Milestones) as complete and effective¹⁰.

¹⁰ Of the Milestones we assessed as complete and effective during the Reporting Period, the Closure Packs for six were received in a previous Reporting Period (Milestones 4.1, 4.2, 33a.1, 33b.1, 12a.4, and 25c.2).

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

Of the 22 Milestones we assessed as complete and effective during the Reporting Period:

- Six were Program Execution Theme Milestones (Milestones 20.1, 31.2, 33a.1, 33b.1, 33b.2 and 34.1)¹¹;
- Four were Board Governance Theme Milestones (Milestones 1.1, 2.3, 4.1 and 4.2)¹²;
- Three were Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.4, 12b.1 and 12c.1)¹³;
- Three were Accountability and Controls Delivery Milestones (Milestones 12e.1, 12f.1 and 16.1)¹⁴;
- Two were Management Governance Theme Milestones (Milestones 6.1 and 19.1)¹⁵;
- Two were Culture, Capability and Consequences Theme Milestones (Milestones 22.1 and 25c.2)¹⁶;
- One was a Customer Outcomes Theme Milestone (Milestone 15.2b)¹⁷; and
- One was an Operating Model (3LoA) Theme Milestone (Milestone 10.1)¹⁸.

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, in total, as at the Reporting Date, 40 Milestones (31 Design Milestones and nine Implement Milestones) had been assessed as complete and effective.

Each of the Design Milestones assessed as complete and effective provides a sound basis for achieving the Target State for the *Inquiry Report* Recommendation to which it relates. Together, these Milestones will provide a sound basis for achieving the Program's overall objectives.

The designs are, however, in some instances high level. We have, therefore, foreshadowed in relation to a total of 24 Design Milestones (15 of which were assessed as complete and effective during the Reporting Period) our intention to focus, when assessing related Implement and Embed Milestones, on how particular design features have been addressed.

Promontory continues to assess several Design and Implement Milestones, while the Program continues to work primarily on Implement Milestones.

¹¹ See discussion in Section 10.2 below.

¹² See discussion in Section 3.2 below.

¹³ See discussion in Section 6.2 below.

¹⁴ See discussion in Section 7.2 below.

¹⁵ See discussion in Section 4.2 below.

¹⁶ See discussion in Section 9.2 below.

¹⁷ See discussion in Section 8.2 below.

¹⁸ See discussion in Section 5.2 below.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

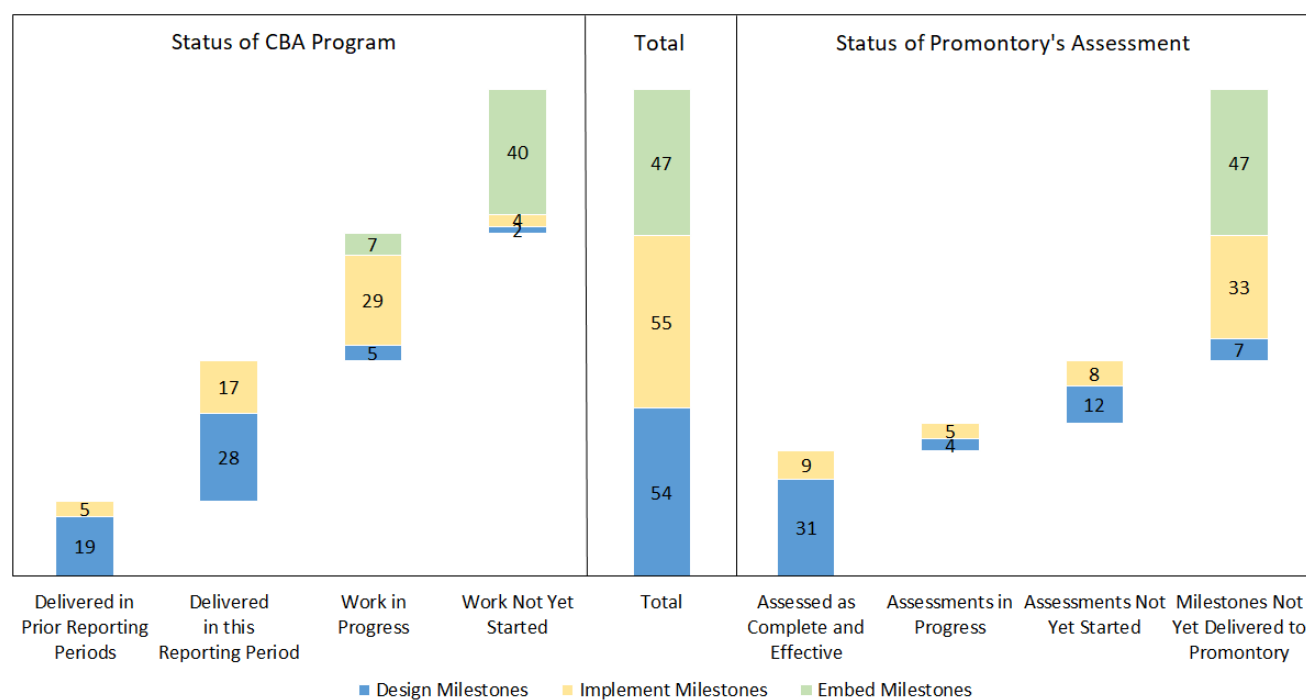
April 2019

At the Reporting Date:

- Promontory was assessing nine Milestones (four Design Milestone and five Implement Milestones) and had not yet begun assessing the 20 Milestones (12 Design Milestones and eight Implement Milestones) delivered to us on 29 March 2019.
- The Program was working on five other Design Milestones, 29 other Implement Milestones and seven Embed Milestones.
- Work had yet to start on two Design Milestones, four Implement Milestones and 40 Embed Milestones.

The information above is summarised in Figure 2.1.

Figure 2.1: Milestone Status



During the Reporting Period we received 10 requests to change aspects of the RAP¹⁹, nine of which we endorsed. The requests related primarily to clarifying the detail of Milestones and Closure Criteria.

Four requests sought to alter the due dates for submitting Milestones. The following changes were made as a result of these requests:

- The due date for Milestone 11.1 was changed from March to July 2019 to address design concerns raised in late March by the ELT NFRC.

¹⁹ RAP Change Requests are part of the formal RAP changes process set out in our First and Second Reports.

- The due date for Milestone 12b.3 was changed from November 2019 to June 2020 to allow CBA more time to evidence Milestone completion²⁰.
- The due date for Milestone 12c.2 was changed from May to November 2019 also to allow CBA more time to evidence Milestone completion²¹.
- The due date for Milestone 20.2 was moved from March to November 2019 also to allow CBA more time to evidence Milestone completion²².

We also received a request to extend the due date for Milestone 12e.2 from March to August 2019 to allow CBA more time to evidence Milestone completion. We did not endorse this request because, as an Implement Milestone, the additional evidence to be gathered was not required.

Changes were approved during the Reporting Period to Milestones for Recommendation 33.

Two Milestones (Milestones 33a.2 and 33a.3) were added as Implement and Embed Milestones associated with a new resource forecasting process. The remaining Milestones under Recommendation 33 were renumbered²³. Further information on these changes is set out in Chapter 10.

2.2. Key Program Developments

During the Reporting Period the Program transitioned from a primary focus on design, with work carried out centrally, to a primary focus on implementation being carried out in BU/SUs.

The change in focus was highlighted at the formal launch of the implementation phase on 26 February 2019 (**Implementation Launch**) attended by the Chief Executive Officer (**CEO**), BU/SU Chief Control Officers (**CCOs**), and other relevant Line 1, 2 and 3 stakeholders.

Through this period of transition, the Program continued to display many of the characteristics of a successful remediation program we set out in our First and Second Reports. Board and Executive Committee oversight remained strong, as did Line 1 executive sponsorship. The Program continued to benefit from the secondment of staff from Business Lines into the central BROP Team. Culture and bringing about cultural change continued to play a central role in the design and roll out of the Program. Program management and execution continued to mature.

²⁰ The due date for Milestone 12b.3 was moved to align with the stages of the RMI Program roll out (which will be the vehicle to implement this Milestone) and so allow for more time to evidence Milestone completion.

²¹ The due date for Milestone 12c.2 was moved to align with the ELT NFRC Forward Agenda to provide further opportunities for ELT NFRC feedback to be provided on the content of the Emerging Risk Report.

²² The due date for Milestone 20.2 was moved to allow CBA more time to evidence Milestone completion given that the commencement of the revised IPP process was deferred from November 2018 to March 2019 and the impact on the Program's ability to provide evidence of Milestone completion.

²³ Milestone 33.1 (Design) was renumbered Milestone 33a.1, Milestone 33.2 (Design) was renumbered Milestone 33b.1, Milestone 33.3 (Implement) was renumbered Milestone 33b.2 and Milestone 33.4 (Embed) was renumbered Milestone 33b.3.

In this section, we describe key Program developments that highlight these observations, aspects of the Program that continue to warrant attention, and how the Program has responded to the focus areas we set out in our Second Report.

2.2.1. Board and Executive Leadership Oversight

The Board and ELT continued to play a close and active role in overseeing the Program.

At the Board meeting we attended during the Reporting Period, the Board considered and responded positively to our comments on continuing to communicate the importance of maintaining momentum and ensuring a strong focus on getting project management disciplines right. The Board also responded positively to our comments about the importance of Management ensuring that the poor project execution practices of the past (identified in the *Inquiry Report*) did not re-emerge. In discussion, the Board also emphasised its ongoing commitment to ensuring Program simplicity and quality sustainable solutions.

The commitment to ensuring quality sustainable solutions was, in turn, reflected in a direction from the Board to the Program in March 2019 to stand back, reflect on, and review the Program's fundamentals with a view to ensuring the changes being made will be sustainable (the **Foundational Review**).

We understand the Foundational Review, to start in April, will consider the foundational elements needed to support an effective risk management framework at CBA, in the context of the significant increase in risk and regulatory matters in which the Group is engaged, the capacity to absorb that change, and the capability of both Line 1 and Line 2 to support sustainable outcomes.

The ELT and its members continued to display the same level of engagement and commitment to the Program evident in earlier Reporting Periods. The CEO conveyed that commitment at the Implementation Launch. Group Executives also participated and played a leading role in the Executive Manager Better Bank Leadership Offsite in March. The CEO and Group Executives made frequent use, during the Reporting Period, of the tools and channels developed by the Program's strategic communications team (described in more detail below in Section 2.2.3) to convey, in a vibrant and engaging way, the Program's importance and their commitment to it.

2.2.2. Program Governance

As the Program transitioned more fully to implementation, several changes to governance arrangements were considered and agreed. The changes will take effect from April.

Changes include the following:

- The establishment of a BU/SU Delivery Governance Forum to manage and monitor BU/SU progress in implementing the activities required under the RAP through the implementation phase. The members of the Forum will include the central BROP Team and BU/SU CCOs and Chief Risk Officers (**CROs**).

The Forum will be tasked with:

- Regularly reviewing BU/SU status updates;
- Discussing BU/SU priorities, blockers, and decisions made; and
- Escalating BU/SU risks and issues to the BROP Governance Forum, as required.

The Forum held its first meeting in April and will meet monthly thereafter.

- The establishment of a Planning and Dependencies Management Forum. The Forum will provide a venue for Theme Leads, Lines 2 and 3 representatives, and the central BROP Team to (i) manage and maintain the Implementation Plan and (ii) identify, monitor, and discuss Milestone dependencies and their impact on program delivery.

The Forum will also be tasked with:

- Reviewing progress against the Implementation Plan; and
- Raising implementation delivery risks, issues and decisions for escalation to the BROP Governance Forum.

The Forum met for the first time in March and monthly thereafter.

The Project Management Offices (**PMOs**) established during the previous Reporting Period to manage the delivery of the Program in each BU/SU are also playing, and will continue to play, an important role in Program implementation. A PMO Forum has been established for the purpose of addressing implementation problems and ensuring consistency in communication across the BU/SUs.

A CCO Forum that comprises the CCOs of each BU/SU and representatives from the central BROP Team, was also established during the previous Reporting Period and has met monthly through this Reporting Period.

The CCO Forum is tasked with:

- Promoting transparency about how issues are being managed in BU/SUs and sharing relevant learnings;
- Identifying next steps for addressing BU/SU concerns and issues and identifying common and BU/SU-specific issues requiring escalation;
- Discussing the sustainability and effectiveness of the uplifted risk management practices; and
- Conveying Board and ELT feedback on BROP progress.

The CCO Forum discusses common non-financial risk themes and tracks progress across BU/SUs and communicates this information to the central BROP Team, Group Executives, and relevant BROP working groups.

Other aspects of the Program's governance arrangements remain as described in Section 2.2 of our Second Report.

At the end of the Reporting Period the governance framework for the project comprised six individual forums reporting through to the BROP Governance Forum. We understand the Program is reviewing and considering rationalising the number of forums to reflect the transition to implementation.

We consider this review to be appropriate. The Program should continue to work to ensure its governance arrangements are appropriate to the Program's needs and are not overly complex.

2.2.3. Program Design and Management

The Program continued to work on ensuring it met the *Inquiry Report's* expectations that clear project objectives, detailed project planning, comprehensive resourcing planning, clear accountability and committed multi-year budgets are in place to ensure Milestones will be delivered on time and with the right outcomes.

During the Reporting Period, further enhancements were made to the Program and how it is being designed and managed.

A number of these enhancements relate to the focus areas set out in our Second Report.

Program Design

During the Reporting Period the Program reviewed the RAP and improved its understanding of dependencies between activities in the RAP and between the RAP and other programs underway across CBA.

RAP Review

As noted in our Second Report, the central BROP Team embarked in late 2018 on a review of the RAP. The review was an opportunity to reflect on learnings from the first six months of the Program.

The review was conducted during January and February and drew on views from across the Program, including from Execution Leads, Subject Matter Experts and BU and SU CCOs.

Draft revisions to the RAP were subject to challenge by Promontory in two sessions in February and March. Our primary focus was on whether changes to due dates for Milestones were necessary and on whether the Closure Criteria were clear and aligned with the description of the Milestones and Target State to which the criteria relate.

The revised RAP was endorsed by the ELT on 8 March 2019 and submitted to APRA on 14 March 2019. The BROP Governance Forum noted the revisions to the RAP at its meeting on 25 March 2019. The revised RAP took effect on 1 April 2019.

The revisions to the RAP were not significant.

Key changes were the following:

- Due dates for 24 of the 156 RAP Milestones were changed. Some changes were made to align Milestone due dates to existing internal processes (including remuneration and investment prioritisation cycles). Other changes were made to provide more time for the Program to provide evidence of Milestone implementation. None of the changes affect the Program's June 2021 end date.
- The descriptions of some Milestones and some Closure Criteria were revised to resolve apparent inconsistencies in the drafting of Target State, Milestones and Closure Criteria and to clarify some Closure Criteria requirements.

We considered these changes to be appropriate.

We understand the review also considered whether and how Milestone due dates should be further adjusted to mitigate delivery risks during peak periods (as we had noted in our Second Report). We understand the Program saw no need to make further changes, at this stage, to address this concern. The Program should continue to

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

monitor delivery risks in future peak periods and reassess the Milestone timeframes if an issue is identified that may affect timely delivery.

We understand that the Program plans to review the RAP on a quarterly basis. We endorse these plans. They provide an opportunity to continue to refine the RAP to reflect developments through the life of the Program, including the outcomes of the Foundational Review described above.

Understanding Dependencies

During the Reporting Period, the central BROP Team undertook a review of Milestone dependencies in the context of a review of the Program's detailed implementation plan (the **Implementation Plan**).

This review followed the findings of the GA&A audit noted in our Second Report about the incomplete and inconsistent mapping of dependencies between Milestones and the absence, at delivery level, of a clear 'source of truth' on Milestone dependencies.

We also commented in our Second Report on the importance of the Program understanding, in further detail, the dependencies between Milestones and their impact on the closure of Milestones by due dates set out in the RAP.

The review of Milestone dependencies included a number of deep dive sessions in March 2019 attended by Major Theme Leads and several Execution Leads.

The Implementation Plan produced by the review now lists the dependencies between Milestones at activity level. It will be the single source of truth about Milestone dependencies which has not, to date, been available to the Program.

The central BROP Team, Theme and Execution Leads will now have a clear and readily accessible picture of those dependencies to which they can refer in informing forward planning as the Program moves through implementation.

We understand that it is envisaged that the Program's governance forums will use the Implementation Plan to ensure dependencies are 'actively surfaced and managed'. Weekly Major Theme Lead meetings will use the Implementation Plan as a basis for discussion of dependencies.

The Implementation Plan will be maintained and updated by the central BROP Team on an ongoing basis using a Change Control Framework recently put in place. A dedicated position responsible for maintaining and updating the Implementation Plan was created and filled during the Reporting Period.

The Program should continue to work toward ensuring processes for updating and using the Implementation Plan are documented.

Some thought is also being given to understanding the dependencies between the RAP and other related programs and initiatives across the Group.

As a precursor to the Foundational Review noted above, CBA embarked, late in the Reporting Period, on a process to map, understand and, where appropriate and possible, prioritise, the many regulator-driven and regulatory-related projects in train across the Group.

This process has allowed CBA, and the Program, to start to better understand dependencies between the Program and other high priority initiatives across the organisation and their impact on the Program. We expand on this in more detail in our discussion of Program challenges in 2.3.1 below.

Program Management

During the Reporting Period, management of the Program continued to mature. Changes to the central BROP Team were foreshadowed. Effective use was made of the RMI Program as the vehicle for rolling out a number of Milestones. Appropriate attention was paid to addressing resourcing risks and ensuring the Program's systems and technology needs were on track to be met. Delivery risk assessments continued to mature. The Program also continued to recognise the important role effective communication plays in supporting the RAP through the implementation phase.

Changes to the Central BROP Team

The central BROP Team has been responsible for managing and overseeing the Program since its inception.

During the Reporting Period, the Program reflected on the structure and operation of the central BROP Team and the challenge of providing guidance to and monitoring the roll out of activity across the Group as the focus shifted to implementation.

The Program also reflected on the need to improve quality control over the Closure Packs delivered to us. We had raised concerns that Closure Packs delivered in December, in particular, were of varying quality. Closure Criteria had not always been clearly addressed and artefacts to support closure had not always been provided²⁴.

Changes to the central BROP Team, to take effect from April, are being made to introduce further project management disciplines and provide greater quality control across the Program. The changes will see a General Manager, drawn from within the Program, taking on primary responsibility for Program management and governance, and a second General Manager, also drawn from the Program, taking on primarily responsibility for ensuring quality control over Program deliverables.

We welcome these changes. In our view they improve CBA's ability to monitor and direct Program implementation, and therefore facilitate an ongoing focus on sustainability as discussed in our Second Report.

Use of the RMI Program

During the Reporting Period, the Program made increasing use of the RMI Program to roll out key Milestones (e.g., Milestones 12e.1, 12f.1 and 16.1).

The RMI Program, endorsed by the ELT at a Group level on 20 November 2018, has been designed as the vehicle to operationalise the group Operational Risk and Compliance Risk (**OR&CR**) frameworks to uplift the control environment in a practical and logical manner. It sets out clear expectations, training, tools and materials intended to enhance the understanding and capability of staff to practically carry out activities required by the group OR&CR frameworks. It involves what are described as quarterly 'RMI Drops' of particular new risk processes and controls across all BU/SUs.

²⁴ We note the quality of the Closure Packs we received in February and March was much improved.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

We understand that the Program envisages using RMI Drops as the vehicle for implementing a number of Milestones in coming months, including those associated with developing risk appetite statements, implementing minimum standards in BU/SUs, and implementing the new Line 2 assurance program.

We welcome continued use of the RMI Drops to support delivery of the Program. In a resource constrained environment, the Drops enable a number of changes and uplifts to be introduced at the same time in – and across – BU/SUs using the same resources.

Monitoring and Addressing Resourcing needs

The Program continued to closely monitor and address the risks and challenges associated with identifying and securing the appropriate resources needed to support delivery of the RAP. Resourcing continued to be an important topic of discussion at BROP Governance Forum and the Program's other governance forums.

Resourcing issues contributed to program delivery risks being rated as 'Amber' and 'Red' during the Reporting Period across several Themes. This reflected recurrent concerns about the availability and capability of skilled resources, and challenges faced in on-boarding resources in a timely way.

Appropriate mitigants, such as the development of capacity plans and scope prioritisation, were, as a result, put in place. For example, resourcing issues identified by the Enabling Systems, Data and Reporting work stream through a planning review were responded to in March when the Group Executive, Enterprise Services approved the on-boarding of an additional RiskInSite delivery team. It is our understanding that these resources were being on-boarded late in the Reporting Period.

As part of delivering Milestone 33a.1, a process was finalised during the Reporting Period to update resourcing plans and budgets across the Program on an ongoing basis. The process is intended to ensure that BU/SUs consider the capacity, capability and funding required to deliver the RAP.

PMOs in each BU/SU are now required to prepare a resource forecast to deliver the RAP in their respective BU/SUs and to update those forecasts on a monthly basis. Material changes are required to be reviewed and endorsed by the relevant Group Executive.

The BU/SU level forecasts are also now being fed into the regular BROP budgeting cycle, and presented and reviewed at the BROP Governance Forum on a monthly basis. The ELT NFRC is also being given the opportunity to review BROP resource forecasts on a quarterly basis.

As we note in our commentary on Milestone 33a.1 below, the process now in place has been designed to be rigorous, objective and to provide full transparency about resourcing needs, in line with comments made in our Second Report.

Monitoring and Addressing Systems and Technology Needs

Our previous Reports noted the importance of ensuring that systems and technology can deliver the information necessary to support implementing and embedding Recommendations on an ongoing and sustainable basis.

The Enabling Systems, Data and Reporting work stream was established early in the life of the Program to address the need for this support.

The work stream has continued to assess, map and prioritise the systems and technology requirements for each Milestone that warrants systems and technology support. It has also continued to provide technical support to other work streams. It has, for instance, continued to work to ensure the technology solutions being developed

are fit for purpose and that Line 1 input is being sought and used during solution design (through, for instance, the RiskInSite Technology Working Group).

We understand, more generally, that the Program has also dedicated staff to monitor the interface between BU/SUs and the delivery team in Enterprise Services. For example, BROP representatives participate in the Executive Action Team forum overseeing delivery of BROP OR&CR technology solutions. This forum seeks to ensure change, prioritisation, capacity management, change scheduling and change quality decisions are optimised at the Group, Risk Management and BROP level. The forum includes BU, delivery team, and Enterprise Services representatives.

We understand that CBA is currently also undertaking a broader review of its technology delivery plans in light of the various strategic priorities and regulatory demands being placed on the Group. This review is designed to better understand the nature and extent of any future technology transformation changes needed to deliver on the Group's strategic priorities.

The Program has recognised that this review may impact on delivery of BROP initiatives, and has engaged in this exercise with a view to understanding the impact of any re-prioritisation on its systems and technology needs.

The Program should continue to be engaged in the broader review of technology delivery plans currently underway, with a view to understanding the impact of that review on prioritisation of its systems and technology needs.

Maturing Delivery Risk Assessment

The rigour and consistency with which the Program was applying its delivery risk assessment processes continued to mature through the Reporting Period. We continued to observe instances where significant risks had been escalated, discussed and remediated within a short space of time.

The delivery risk profile developed early in the life of the Program was revised during the Reporting Period to reflect the heavier Program focus on implementation. The 15 risk types in use from the start of the Program were consolidated and revised into 13 risk types, including a new risk specifically addressing the ability of BU/SUs to effectively implement solutions.

Standardised status reporting at the BU/SU level was also developed during the Reporting Period. This reporting will aid the Program in tracking BU/SU progress in executing the RAP, and monitoring risks and issues being faced at the BU/SU level.

The recent revisions to the delivery risk profile should improve the Program's ability to identify and address delivery risks.

Communications

As noted above, the Program has developed and is implementing a communications plan to support the roll out of Program initiatives. The plan envisages 'turning up the volume' to support implementation.

The communications plan, and communications developed under it, seek to link Program initiatives to the concept of a Better Bank and their relevance to day-to-day activities.

The communications we reviewed during the Reporting Period were, for instance, designed with the intent of establishing a strong link between Program initiatives and better customer and risk outcomes. The

communications plan has also been designed with appropriate feedback loops to ensure both the messaging and use of channels can be adapted and refined over time.

2.2.4. Risk and Assurance Oversight

Changes continued to be made during the Reporting Period to risk and assurance oversight of the Program.

Further changes were made to Line 2 and its role in the Program.

During earlier Reporting Periods, the Program had its own Chief Risk Officer (the **BROP CRO**) with responsibility for reviewing the operation of the Program and reviewing and challenging the completion of Milestones. The BROP CRO reported to the Group Chief Risk Officer. As the Program was primarily focused on centrally driven design activity, Line 2 functions in BU/SUs had a limited role in the Program.

During the Reporting Period, in recognition of the transition to implementation, a number of changes were made to the role of the Line 2 function.

The key changes were the following:

- Line 2 responsibilities were clearly divided between BU/SU CROs and the BROP CRO²⁵;
- BU/SU CROs' responsibilities are now directed at overseeing implementation of Milestones in each BU/SU. This will be evidenced by approving Line 1 implementation status as reported to relevant BU/SU Delivery Governance Forums; and
- The BROP CRO's responsibilities are now to oversee the operation of the Program governance framework and management by the central BROP Team of the Program risk profile. In addition, the BROP CRO is now responsible for co-ordinating the scope and execution of BU/SU Line 2 oversight of Program implementation and providing an aggregated Line 2 view across the Program and the Group.

Our Second Report noted that the Board should review the role of Line 3, GA&A, in the Program beyond the FY19 cycle. Our expectation was that the role of Line 3 should, at the very least, provide the Board and Management with assurance in relation to those Milestones with significant cross-organisational impact.

Line 3 involvement in the Program, where it can add the most value, is supported by the Board.

We understand that GA&A is reviewing its audit plans for the remainder of FY19 and for FY20, with plans for FY20 to be submitted to the Board Audit Committee (**BAC**) in June. We understand that GA&A envisages employing a risk-based approach to auditing 'organisational process and control changes introduced through BROP'.

We also understand that, where possible, GA&A will audit Program processes and controls as part of broader, ongoing reviews of the Group's Operational Risk and Compliance Risk Management Framework, including as part of CPS 220 reviews. We will continue to meet regularly with GA&A as its audit plans for FY20 are developed.

²⁵ During the Reporting Period, a new BROP CRO was appointed who, in addition to acting as BROP CRO, is responsible for acting as CRO to a number of the Group's smaller support units.

2.3. Ongoing Challenges and the Road Ahead

The implementation phase, which the Program has now entered, will play a critical role in ensuring the Program's longer-term success and effectiveness.

The success and effectiveness of Program implementation will, in turn, require:

- Engaging with and capturing the hearts and minds of employees across the Group about the need for change;
- Equipping employees with tools they understand and can use to make and embed those changes; and
- Ensuring those tools can be and are being used in the same way across the Group.

In an organisation the size of the CBA, the difficulty of this exercise should not be under-estimated.

Engaging with – and capturing the hearts and mind of – all employees will be a particular challenge. The Program will be asking employees to think differently and do things differently to the past. Employees will be asked to use new systems and apply new approaches. They may be resistant and may want to understand very clearly why the changes are being made and why they are being made in the way the Program has designed them.

In this section, we set out the challenges we see the Program facing in ensuring successful and effective implementation. They build on the challenges we identified in our Second Report.

2.3.1. Managing Competing Priorities

A significant and overarching challenge for the Program in coming months will be delivering the RAP in the context of the competing regulatory priorities CBA faces.

The precursor to the Foundational Review noted above in Section 2.2.1, identified a significant number of high-priority projects within CBA with a regulatory dimension. The Program is one of those projects. Others include responding to the Final Report of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, published during the Reporting Period, and a number of customer remediation programs.

During the Reporting Period, CBA was also responding to extensive, detailed and frequent information requests from regulators in relation to past events. Providing this information in a timely and constructive way has imposed a significant resource burden, particularly on a number of teams that are also responsible for implementing Program Milestones.

As a result of these developments CBA has been challenged to think through how it balances responding appropriately to past failings with the need to develop and enhance systems, processes and frameworks to ensure those failings are not repeated.

The Foundational Review will be an opportunity to better understand and address this challenge and its impact on the Program.

We consider it appropriate for the Board and Executive Leadership to give the Foundational Review the highest priority. In considering the Review's findings and recommendations, we expect the Board and Executive

Leadership to apply a forward-looking perspective that emphasises the Program's role in minimising the risk of repeating compliance and other non-financial risk failings of the past.

2.3.2. Maintaining Momentum

The importance of and difficulty in maintaining momentum will further intensify in coming months.

BU/SUs will be required to put into practice new processes and apply new ways of thinking at a time when many are under pressure from the broader regulatory and supervisory environment in which CBA finds itself.

The good work to date at all levels in ensuring momentum is maintained should continue.

In particular:

- Both the Board and Group Executives should continue to convey their ongoing and strong commitment to the Program and to timely and consistent implementation of Milestones, in particular using the communication channels and messages described in Section 2.2.3 above.
- Their messages should continue to link the Program and its changes to improving the customer experience. The content of their messages should not be branded simply as requirements of the Program.

Messaging should continue to be simple, powerful and serve to disrupt existing ways of thinking.

2.3.3. Effective Project Execution and Governance Disciplines

The increase in Program scale and scope in coming months will reinforce the need to continue to focus on ensuring project execution and governance disciplines remain effective.

We have noted in our previous reports the *Inquiry Report's* description of CBA's poor track record in executing risk remediation projects. The Board, the ELT and the central BROP Team have remained vigilant in ensuring these practices have not re-emerged.

That vigilance should continue.

In addition, we urge the Program to continue to focus on ensuring the following aspects of effective project management are given appropriate attention.

Close Monitoring and Tracking

The central BROP Team should continue to use the processes that have evolved through the Program to date to closely monitor progress in Milestone implementation and to respond quickly when risks or issues arise.

The BU/SU reporting introduced during the Reporting Period, recent changes to assessing delivery risks, and the revised central BROP Team structure provide a sound basis for delivering the level of monitoring and tracking the Program needs.

The Program should also reflect on how it will work to ensure consistency in applying centrally designed standards and guidance. It should monitor, in particular, the effectiveness of the communication techniques

and channels it is using to roll out standards and guidance to understand whether they are delivering a consistent understanding of those standards and guidance.

As more aspects of project management are devolved to the BU/SUs, having documented processes in place to ensure that all BU/SUs take a consistent approach to reporting progress and risks will also support more effective monitoring and tracking of Program progress.

Simplicity and Sustainability

The Program should continue to work to ensure the processes and systems it designs and implements remain simple.

Over-engineered and complex processes may prevent those tasked with execution in BU/SUs from understanding the changes they will be expected to implement, thereby putting consistent implementation at risk.

Ensuring that the changes the Program is making will be sustainable and stand the test of time should remain an important consideration throughout the implementation phase. Sustainability was clearly a critical consideration in designing standards and guidance through the design phase. It will remain equally important through the implementation phase.

A key element of ensuring sustainability will be ensuring that new processes and approaches are comprehensively and accurately documented.

During the design phase, we conditioned our final assessment of a number of Milestones on ensuring adequate documentation of key processes. We will continue to do so during the implementation phase. In the interests of ensuring that changes are sustainable, we will continue to base our assessments on the documents we see, not on what we are told is being done.

Documentation of processes has the benefit – on the one hand – of the discipline and rigour which comes with describing those processes in succinct terms and – on the other – of providing guidance to those who will, now and in the future, be required to apply those processes (most of whom will not have been involved in designing and developing the processes).

Effective Program Risk and Assurance Oversight

Effective oversight remains critical to providing Management and the Board with comfort that the Program is in fact delivering on its objectives.

Providing an appropriate level of oversight was relatively straightforward and simple during the centrally driven design phase of the Program. With the increased scale of the implementation phase, this oversight will grow even more critical and more challenging to provide.

The changes in Program assurance through the Reporting Period provide a solid foundation for the effective oversight the Program requires. The Program should work to ensure this foundation is fully harnessed.

Active engagement and sign off by CROs on each BU/SU's Program activities will provide a constructive, independent and well-informed challenge close to the business as Milestones are being implemented.

The BROP CRO, with responsibility for the Program will, in co-ordinating the scope and execution of BU/SU Line 2 activity, also be well placed to monitor and track consistency in implementation across the Group.

GA&A should also work to ensure its audit program for FY20 focuses on those aspects of the implementation phase which, if poorly implemented, pose the greatest risk to the Program delivering its intended outcomes.

Effective Program Governance

The Program should continue to work to ensure the governance framework is providing appropriate support to effective Program execution.

We endorse the review of governance arrangements noted above. In conducting this review, the Program should continue to be mindful of the importance of not overcomplicating governance arrangements and retaining forums of limited ongoing net benefit.

The Program should, in any event, also work to ensure the forums comprising the governance framework are effective in allowing those involved in execution to share experiences and develop common approaches, thereby supporting consistent implementation across the Group.

We will monitor how revised governance approaches are operating and their effectiveness in the next Reporting Period.

2.3.4. Resourcing

The resourcing challenge identified in our earlier Reports will continue, and require careful ongoing attention. As the Program is rolled out to BU/SUs, ensuring that the Program and BU/SUs are adequately resourced will remain arguably the most significant challenge the Program faces.

As noted above, the Program has recognised this risk and sought to address it through the Reporting Period. While delivery of any specific Milestone does not at this time appear to be threatened, we will continue to monitor the Program's success in addressing resourcing challenges in future reports.

Estimating resource requirements and budgets for any complex, multi-year project will continue to be challenging. The Program should continue to centrally monitor and challenge the accuracy of resourcing estimates.

The key risk lies in resourcing Line 2. Although the Program had received funding for additional Line 2 resources, delays have been experienced in on-boarding those resources. The risk of insufficient skilled capacity is likely to remain elevated due to the tight market for risk and compliance specialists.

An added complication is the resourcing pressure arising from the other regulatory initiatives described above to which CBA is responding. The resources responding to these regulatory initiatives are, in many cases, the same resources who will be required to provide Line 2 oversight through the implementation phase.

CBA will need to think creatively about how this challenge is to be addressed.

Constructive thought has been given, in the context of Recommendation 13, to developing a resourcing strategy that balances recruiting Line 1 and Line 2 resources with building those resources from other areas within CBA. Consideration should be given, in the context of current external market conditions for those resources, to intensifying efforts to identify and upskill resources from Business Lines and other parts of CBA.

Consideration should also be given to identifying and exploring synergies identified with other projects and programs through the Foundational Review.

2.4. Focus Areas

This section summarises the areas and actions identified in this Chapter on which CBA and the Program should focus moving forward. They are summarised in Table 2.1 below.

Table 2.1: Areas on which CBA Should Focus

#	Areas for Focus	Actions
1	Board and Executive Leadership Oversight and Sponsorship	<ul style="list-style-type: none"> (i) Both the Board and Group Executives should continue to convey their ongoing and strong commitments to the Program and to timely and consistent implementation of Milestones, using the communications channels and messages described in Section 2.2.3. The messages should continue to link the Program to better customer and risk outcomes, and their content should not be branded simply as requirements of the Program. (ii) The Board and Executive Leadership should give the Foundational Review the highest priority. (iii) In considering the Foundational Review's findings and recommendations, the Board and Executive Leadership should apply a forward-looking perspective that emphasises the Program's role in minimising the risk of repeating compliance and other non-financial risk failings of the past. (iv) The Board and the ELT should remain vigilant in ensuring that the poor project management practices of the past do not re-emerge.
2	Effective Project Management and Governance Disciplines	<ul style="list-style-type: none"> (i) The Program should continue to work to ensure its governance arrangements are appropriate to the Program's needs and are not overly complex. (ii) The Program should continue to review the RAP on a regular basis. (iii) The Program should continue to monitor delivery risks in future peak periods and reassess Milestone due dates once an issue that may affect timely delivery is identified. (iv) The Program should work to ensure it has an understanding of dependencies between the Program and other high-priority regulatory initiatives across the organisation identified through the Foundational Review and can leverage those dependencies. (v) The central BROP Team should use the processes that have evolved through the Program to date to closely monitor progress in Milestone implementation (especially during peak periods) and to respond quickly when risks or issues arise. (vi) The Program should reflect on how it will work to ensure consistency in applying centrally designed standards and guidance. It should monitor the effectiveness of communications being used to roll out standards and guidance to understand whether a consistent understanding of those standards and guidance is being delivered. (vii) Use of the RMI Drops to support delivery of the Program should continue. The Program should also work to ensure existing operational forums are effective in allowing those involved in

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

		execution to share experiences and develop common approaches, thereby supporting consistent implementation across the Group.
3	Simplicity and Sustainability	<ul style="list-style-type: none"> (i) The Program should continue to work to ensure the processes and systems it designs and implements remain simple. (ii) The Program should continue through the implementation phase to work to ensure the changes it is making will be sustainable and stand the test of time. In this regard, it should work to ensure that new processes and approaches are comprehensively and accurately documented.
4	Assurance	<ul style="list-style-type: none"> (i) The Program should work to ensure the solid foundation for effective oversight introduced during the Reporting Period is fully harnessed. (ii) GA&A should work to ensure its audit program for FY20 focuses on those aspects of the implementation phase which, if poorly implemented pose the greatest risk to the Program delivering its intended outcomes.
5	Ensuring Systems and Technology are Fit for Purpose	<ul style="list-style-type: none"> (i) The Program should continue to be engaged in the broader review of technology delivery plans currently underway with a view to understanding the impact of that review on prioritisation of its systems and technology needs.
6	Resourcing	<ul style="list-style-type: none"> (i) The Program should continue to centrally monitor and challenge the accuracy of resourcing estimates. (ii) Consideration should be given, in the context of current external market conditions for Line 2 resources, in particular, to intensifying efforts to identify and upskill resources from Business Lines and other parts of CBA. (iii) Consideration should also be given to identifying and exploring, through the Foundational Review, synergies with other projects to address the resourcing pressure arising from the other regulatory initiatives.

3. Board Governance Theme Milestones

The Board Governance Theme deals with the *Inquiry Report* Recommendations on Board governance.

The *Inquiry Report* found the degree of attention and priority afforded to the governance and management of non-financial risks at CBA had not been to the standard expected of a systemically important bank.

Significant shortcomings in governance of non-financial risk were identified. The Board and its Committees had not demonstrated sufficient rigour and urgency in holding Management to account. There were significant gaps in reporting and metrics provided to the Board and its Committees, and heavy reliance on the authority of key individuals. Gaps in communication between Committees, overconfidence in the effectiveness of the Board and its Committees, and immature oversight of risk culture, were also observed. The *Inquiry Report* noted the new tone being set by the day-to-day actions of the refreshed Board and its Committees under the new Chair which, if maintained, would help to address many of the governance issues raised by the Inquiry.

The *Inquiry Report* recommended CBA make improvements to Board practices and processes, non-financial risk information provided to the Board and its Committees, and the way Board Committees co-ordinate. It emphasised the need for the Board to promote a clear tone at the top.

CBA's response through the RAP is to make changes that will strengthen Board practices and co-ordination.

In particular, the RAP envisages the Board engaging with senior leaders and staff throughout the organisation in a more structured manner. It also envisages addressing gaps against global better practice for Boards and Committees, improving co-ordination between Board Committees, clarifying the delineation of roles and responsibilities between the Committees relating to oversight of non-financial risk issues, improving Board Audit Committee protocols, and improving the quality and consistency of non-financial risk reporting.

3.1. Status of Board Governance Theme Milestones

Milestones for the Board Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Board Governance Theme is set out in Table 3.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for seven Board Governance Theme Milestones (Milestones 1.1, 1.2, 1.3, 2.1, 2.3, 3.3 and 5.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed four Board Governance Theme Milestones (Milestones 1.1, 2.3, 4.1 and 4.2) as complete and effective. Closure Packs for Milestones 4.1 and 4.2 were submitted in the Second Reporting Period.
- The Program was working on three other Implement Milestones for this Theme. Work had yet to start on one Implement Milestone. Work had not begun on any of the five Embed Milestones for this Theme.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

At the Reporting Date, Promontory was assessing one Board Governance Theme Milestone (Milestone 5.1) and was yet to start its review of four other Milestones, the Closure Packs for which were submitted in late March (Milestones 1.2, 1.3, 2.1 and 3.3).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of six of the 20 Board Governance Theme Milestones had been assessed as complete and effective.













Table 3.1: Progress on Board Governance Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
1	Board visibility	1.1 Implement	Increase Board engagement with Senior Management	Dec-18	●
		1.2 Implement	Establish Board agenda item on Non-Financial Risk (NFR) issues and quality of information	Mar-19	◐
		1.3 Implement	Amend ELT agenda to include discussion of Board information	Mar-19	◐
		1.4 Embed	Undertake an annual review on Board and Board Committees' performance	Dec-19	○
2	Board better practice	2.1 Design	Compare the processes and practices of the Board to global better practice	Mar-19	◐
		2.2 Implement	Change processes and practices in line with Board approved recommendations	Oct-19	○
		2.3 Implement	Update Board Corporate Governance Guidelines to require periodic review of practices	Dec-18	●
		2.4 Embed	Assess whether the Board, BAC and Board Risk Committee (BRC) are aligned with better practice identified in Milestone 2.1	Dec-20	○

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
3	Board co-ordination	3.1 Design	Amend the BAC Charter to provide for referral of relevant matters to the BRC	Oct-18	
		3.2 Design	Review Board Committee Charters to consider appropriate cross-referral of matters	Oct-18	
		3.3 Implement	Amend Board Committee agendas to include information sharing and issues referral	Mar-19	
		3.4 Implement	Establish Board Committee joint meeting to consider NFR matters related to executive performance and remuneration	Aug-19	
		3.5 Embed	Assess the effectiveness of co-ordination between the BRC, Board Remuneration Committee (RemCo) and BAC	Dec-20	
4	Audit Committee	4.1 Design	BAC to set expectations on when BU/SU must present on material issues	Dec-18	
		4.2 Design	Review, update and document the end-to-end internal audit practices in relation to issue management	Dec-18	
		4.3 Implement	Amend internal audit process to include BU/SU issue owners appearing before BAC	Jun-19	
		4.4 Embed	BAC to arrange review of quality of internal audit process and whether BAC expectations on presentations by BU/SU accountable individual are being met	Dec-19	
5	Board information	5.1 Design	Design Board reporting in relation to NFR	Feb-19	
		5.2 Implement	Commence revised operational risk, compliance and regulatory risk reporting to the Board and BRC	Sep-19	
		5.3 Embed	Assess whether the Board and BRC received adequate NFR information	Dec-20	

3.2. Board Governance Theme Milestone Assessment Outcomes

3.2.1. Assessment of Recommendation 1 Milestone

The Target State for Recommendation 1 is that the Board continues to have a positive influence on the behaviours within the Group and is engaged and visible with Senior Management, and that Senior Management is clear about the behaviours and actions the Board expects of them.

a) Milestone 1.1

Milestone 1.1 (an Implement Milestone) requires the Board to continue with what the *Inquiry Report* describes as its new mode of operation – attending Board education sessions, including visits to businesses, attending and participating in leadership and staff forums, and dinners with Executive General Manager (**EGM**) and General Manager (**GM**) level staff. The Milestone also requires the Chairman to attend ELT meetings.

During the second half of 2018, the Board attended presentations and educations session to better understand initiatives being taken by CBA, attended leadership forums, and participated in the dinner program. The Chairman also attended a number of ELT meetings. A Board Forward planner was also developed listing planned interactions between the Board and ELT through to June 2019.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The key messages and expectations the Board communicated in its interactions with Senior Management;
- Whether the meetings scheduled in the Board Forward Planner were face-to-face and included all meetings between the Board and Senior Management; and
- How the impact of activities to raise Board visibility will be monitored.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Board has developed appropriate channels of communication with Senior Management to support achieving the Target State.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Embed Milestone for this Recommendation will consider whether and how the Board continues to promote a clear tone at the top.

3.2.2. Assessment of Recommendation 2 Milestone

The Target State for Recommendation 2 is that the Board and its Audit and Risk Committees are operating at a level consistent with global better practice.

a) Milestone 2.3

Milestone 2.3 (an Implement Milestone) requires that the Board Corporate Governance Guidelines be updated to require periodic reviews of the processes and practices of the Board BAC and BRC to ensure they align with global better practice for risk management.

CBA has updated the Board Corporate Governance Guidelines to explicitly require Board and Board Committee practices to be reviewed periodically to ensure that they are aligned with global better practice for risk management. The updated Guidelines were approved by the Board in December 2018.

Based on our assessment of the Milestone Closure Pack, we have concluded that CBA has updated the Board Corporate Governance Guidelines as required.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

3.2.3. Assessment of Recommendation 4 Milestones

The Target State for Recommendation 4 is that the owners of material issues are held accountable for the resolution and effective closure of issues within their remit.

a) Milestone 4.1

Milestone 4.1 (a Design Milestone) requires the BAC to set its expectations as to when accountable individuals from BU/SUs must present in person on status, actions and closure of material audit issues.

The BAC has approved a set of recommended actions from GA&A to increase its direct engagement with individuals from BU/SUs on significant audit issues.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about how the BAC-approved recommendations address the following:

- Who should present to the BAC on material issues;
- What information should be presented to the BAC, including under what circumstances 'Red' audit reports and significant issues would be presented to the BAC;
- When information should be presented to the BAC; and
- How the new processes will be communicated and socialised to those outside GA&A.

Clarity was also sought on the particular reports and issues that would be the subject of the BAC-approved recommendations.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the BAC has set appropriate expectations on when accountable individuals must present on the status, actions and closure of material issues.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider:

- Any changes to procedures regarding the reporting and presentation requirements associated with Red rated or Highly Significant audit reports;
- Guidance contained in the new GA&A Manual in relation to attendance at BAC meetings; and
- The list of attendees called to present to the BAC on audit reports or findings.

b) Milestone 4.2

Milestone 4.2 (a Design Milestone) requires CBA to review, update and document its end-to-end internal audit practices. The Milestone requires the updated practices to include consideration of changes to the way in which CBA manages issues (through the Issues Management Standard being developed for Recommendation 16) and how GA&A findings are reported to and considered by the BAC.

CBA has conducted a review of its end-to-end audit processes, covering audit planning, delivery, follow-up, and governance and reporting. The revised audit processes include updated practices in relation to holding owners of material issues to account, and the monitoring and closure of audit issues.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- Whether the BAC has sufficient visibility over High/Very High audit issues; and
- How GA&A will leverage testing conducted by Line 1 and 2 in conducting its annual audit planning.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has reviewed, updated and documented appropriate end-to-end internal audit practices that should ensure that the BAC has more direct and effective engagement with BU/SU issue owners.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

4. Management Governance Theme Milestones

The Management Governance Theme deals with the *Inquiry Report* Recommendations on senior leadership oversight, the stature of the compliance function and regulatory engagement.

The *Inquiry Report* found that the Executive Committee had not been an effective vehicle for addressing Group-wide risks and issues. The Committee had no mandate to oversee the risk profile of the Group. Its dynamics did not encourage a sense of collective accountability for Group risk outcomes or constructive challenge of Committee members. CBA's compliance function had not been given sufficient recognition, stature or authority. In dealing with regulators, CBA was also seen to be defensive, reactive, perfunctory and slow to respond.

The *Inquiry Report* recommended that the Executive Committee embed collective accountability for management of the Group, mitigate the impact of risks that span BUs, elevate the stature of the compliance function, and establish an Executive-level Committee for oversight of non-financial risks (including emerging risks). It also recommended that CBA strengthen its dialogue and engagement with regulators and take a more pre-emptive approach to investment decisions in risk management.

CBA's response through the RAP is to elevate the stature of non-financial risk, making it a top priority for the ELT. It envisages establishing a new committee at the Executive level to oversee non-financial risk with the EGM Compliance as a member. Changes are also to be made to strengthen individual responsibility and accountability, improve governance, and encourage leaders to take a pre-emptive approach to risk management.

The RAP envisages measures to strengthen collective accountability and encourage greater challenge in the ELT. It also envisages refreshing CBA's regulatory engagement principles.

4.1. Status of Management Governance Theme Milestones

Milestones for the Management Governance Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Management Governance Theme is set out in Table 4.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for seven Management Governance Theme Milestones (Milestones 6.1, 6.2, 7.3, 7.4, 8.2, 14.3 and 19.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed two Management Governance Theme Milestones (Milestones 6.1 and 19.1) as complete and effective.
- The Program was working on one other Implement and three other Embed Milestones for this Theme. Work had yet to start on three Embed Milestones.

At the Reporting Date, Promontory was assessing four Management Governance Theme Milestones (Milestones 6.2, 7.4, 8.2 and 14.3) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late March (Milestone 7.3).

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of seven of the 19 Management Governance Theme Milestones had been assessed as complete and effective.











Table 4.1: Progress on Management Governance Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Progress
6	Collective accountability	6.1 Design	Develop Group Strategy scorecard that reflects shared accountabilities	Dec-18	
		6.2 Implement	Board approves changes to Group Executive scorecards/Key Performance Indicators (KPIs) to include shared priorities and accountability for RAP	Feb-19	
		6.3 Embed	Interim and annual performance assessment of Group Executives completed, based on revised KPI structure with Group Strategy scorecard as key input	Sep-19	
7	Executive Committee	7.1 Design	Establish the ELT NFRC to consider risks that span the Group	Sep-18	
		7.2 Design	Develop and communicate CEO expectations in relation to behaviours and interactions of the ELT	Oct-18	
		7.3 Implement	ELT operating according to CEO's expectations	Mar-19	
		7.4 Implement	ELT NFRC meetings are operating in accordance with Charter	Feb-19	
		7.5 Embed	Engage external part to conduct a review of the behaviours and interactions of the ELT	Oct-19	
		7.6 Embed	Complete external assessment of ELT NFRC	Oct-19	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
8	NFRC	8.1 Design	Establish the ELT NFRC with agenda, roles and responsibilities defined	Sep-18	
		8.2 Implement	ELT NFRC meetings are operating in accordance with Charter	Feb-19	
		8.3 Embed	Complete external assessment of ELT NFRC	Oct-19	
14	Head of Compliance	14.1 Design	Include the EGM Compliance as a member of the ELT NFRC and include regular time for discussion of compliance matters	Sep-18	
		14.2 Implement	Provide EGM Compliance with access to Board and BRC and removal/appointment protocols	Sep-18	
		14.3 Implement	EGM Compliance attends ELT NFRC meetings	Feb-19	
		14.4 Embed	EGM Compliance attends Board and BRC meetings as required	Jun-19	
19	Regulator engagement	19.1 Design	Define regulatory engagement target operating model	Dec-18	
		19.2 Implement	Target operating model for regulatory engagement in place	Jun-19	
		19.3 Embed	Demonstrate uplift in regulatory engagement through key interactions	Mar-20	

4.2. Management Governance Theme Milestone Assessment Outcomes

4.2.1. Assessment of Recommendation 6 Milestone

The Target State for Recommendation 6 is that each member of the ELT is held accountable and assessed against a set of shared priorities that have been approved by the CEO and the Board and are embedded in the Group's performance management framework. The Target State lists the shared priorities identified for the Group for FY19.

a) Milestone 6.1

Milestone 6.1 (a Design Milestone) requires CBA to develop a Group Strategy Scorecard that reports on the progress and contribution across the ELT on shared accountabilities and priorities.

CBA has developed seven shared priorities for the ELT. A Group Strategy Scorecard that reflects these priorities and reports on progress against delivering these priorities has been presented to the Board.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The process for selecting measures to assess progress in delivering the shared priorities;
- The definition of certain metrics reported in the Group Strategy Scorecard;
- The status of metrics described as being under development at the time we received the Closure Pack; and
- The need for and nature of any Board approval in relation to the Group Strategy Scorecard.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that there are CEO-approved and Board-noted measures in place which will provide a basis for members of the ELT to be held accountable for, and assessed against, an agreed set of shared priorities.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

4.2.2. Assessment of Recommendation 19 Milestone

The Target State for Recommendation 19 is that CBA adopts a revised regulatory engagement strategy that promotes a more collaborative relationship with regulators and the more proactive identification and management of regulatory issues to ensure that CBA meets and exceeds the expectations of all stakeholders, and rebuilds and maintains community trust.

a) Milestone 19.1

Milestone 19.1 (a Design Milestone) requires the regulatory engagement target operating model to be defined, including clear, single-point accountability, a central repository for regulatory communications supported by refreshed regulatory engagement principles, including agreed clear success measures.

CBA has developed a regulatory engagement target operating model which designates the Group CRO as a single point of accountability, describes a 'hybrid/hub and spoke' organisational structure and measures to support the model, outlines the design of a central repository for regulatory communications, and defines regulatory engagement principles developed in consultation with regulators. The target operating model has been endorsed by the ELT.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The expectations under the target operating model of the Group CRO;
- Aspects of the organisational design of the target operating model, such as roles and responsibilities for communicating with regulators under the 'hybrid/hub and spoke' structure;
- How CBA will monitor the operation of the target operating model;
- Success measures and supporting rating scale to track improvements in regulatory engagement and, whether CBA had reached agreement with the main local regulators on how success will be measured; and
- How the revised regulatory target operating model will be rolled out.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed a regulatory engagement target operating model that satisfies most aspects of the Target State, including establishing single-point accountability and designing a central repository for regulatory communications.

Our assessment, however, identified that the success measures that CBA would track to assess its progress against the refreshed regulatory engagement principles had not been formally agreed to by regulators. Regulators had instead provided general feedback that they did not object to the success measures developed by CBA and would likely provide feedback on regulatory engagement as part of business-as-usual processes.

After discussions with APRA representatives on the challenge of success measures being formally agreed to by regulators, we have assessed this Milestone as providing a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider CBA's progress in relation to monitoring regulator feedback on regulatory engagement in accordance with the regulator engagement principles.

5. Operating Model (3LoA) Theme Milestones

The Operating Model (3LoA) Theme deals with the *Inquiry Report* Recommendations on aspects of the operating model for non-financial risk, in particular the three lines of defence model (described at CBA as three lines of accountability or 3LoA) and related issues.

The *Inquiry Report* found that CBA had not implemented the three lines of defence model effectively despite numerous attempts. The *Inquiry Report* also noted that BU CROs retained reporting lines to relevant Group Executives. It said CBA needed to ensure that this reporting line did not impede their independence.

The *Inquiry Report* recommended that CBA ensure its 3LoA principles are effectively embedded and subject to strict governance principles with BUs taking primary ownership of risk management. It also recommended that BU CROs have the necessary independence to provide effective challenge to the business.

CBA's response through the RAP is to generate a consistent understanding, ownership and governance of risks across the bank by adhering to 3LoA principles.

The RAP envisages establishing clear requirements on the roles of each line of defence, and strengthening the ability of Line 2 to provide challenge and assurance.

5.1. Status of Operating Model (3LoA) Theme Milestones

Milestones for the Operating Model (3LoA) Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Operating Model (3LoA) Theme is set out in Table 5.1, and is discussed in more detail below.









During the Reporting Period:

- The Program submitted Closure Packs for three Operating Model (3LoA) Theme Milestones (Milestones 9.2, 10.1 and 10.2) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed one Operating Model (3LoA) Milestone (Milestone 10.1) as complete and effective.
- The Program was working on one other Implement and one other Embed Milestone for this Theme. Work had yet to start on one Design Milestone and one Embed Milestone.

At the Reporting Date, Promontory was assessing one Operating Model (3LoA) Theme Milestone (Milestone 10.2) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late March (Milestone 9.2).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of two of the eight Operating Model (3LoA) Theme Milestone had been assessed as complete and effective.

Table 5.1: Progress on Operating Model (3LoA) Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
9	3LoA	9.1 Design	Develop approach and tools to align OR&CR activities with the 3LoA Principles	Sep-18	
		9.2 Design	Develop plans to align BU/SU OR&CR activities to the 3LoA Principles	Mar-19	
		9.3 Design	Endorse plan to align to the 3LoA Principles of all risk types other than OR&CR	Sep-19	
		9.4 Implement	Realign Lines 1 and 2 OR&CR activity	Mar-20	
		9.5 Embed	Complete Line 3 assessment of Lines 1 and 2 to ensure they operate in accordance with the 3LoA Activities for OR&CR	Dec-20	
10	CRO independence	10.1 Design	Clarify engagement protocol between BU CROs and BUs to maintain connectivity without compromising independence	Dec-18	
		10.2 Implement	Reinforce independence of BU CRO by amending reporting lines and KPIs	Feb-19	
		10.3 Embed	Complete Group CRO performance review of BU CROs	Oct-19	

5.2. Operating Model (3LoA) Theme Milestone Assessment Outcomes

5.2.1. Assessment of Recommendation 10 Milestone

The Target State for Recommendation 10 is that BU CROs are, and are perceived to be, independent from BUs, but continue to be well-connected to BUs to enable them to provide effective review and challenge.

a) Milestone 10.1

Milestone 10.1 (a Design Milestone) requires Engagement Protocols between BU CROs and BUs to be clarified to maintain connectivity and the benefits of co-location and embedment without compromising independence.

CBA has developed Engagement Protocols that remove the dotted reporting line from BU CROs to BU senior leaders, make the Group CRO accountable for decisions on remuneration of BU CROs, and require BU CROs to co-locate with BUs and participate in Leadership Team and Risk Governance Committee meetings. The ELT has endorsed the Engagement Protocols.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- Whether the Engagement Protocols are set out in a formal, stand-alone document;
- What the changes to the role and responsibilities/accountabilities of BU CROs arising from the removal of the BU reporting line will mean in practice;
- How the Engagement Protocols will be socialised and formally accepted by BU CROs and BUs; and
- How the KPIs of BU CROs have been structured to re-enforce independence from BUs.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that stand-alone documented Engagement Protocols to guide interaction between BU CROs and BUs are in place, and that the changes made support the independence of BU CROs.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider whether CBA has formally communicated (and can evidence acceptance of) the roll out of the BU CRO Engagement Protocols to the BUs and BU CROs.

6. Risk Appetite, Taxonomy and Standards Theme Milestones

The Risk Appetite, Taxonomy and Standards Theme deals with *Inquiry Report* Recommendations on aspects of non-financial risk management. These aspects include setting Risk Appetite Statement (**RAS**) limits, setting minimum standards for non-financial risk management, assurance of BU/SU risk profiles, and identifying and managing emerging risks.

The *Inquiry Report* found that CBA's management of operational and compliance risks had been inadequate. It concluded that operational and compliance risk metrics in the Group RAS were under-represented relative to metrics for financial risks and that policies and frameworks for managing operational and compliance risks had been inconsistently implemented. It noted that operational risk and compliance functions had been reactive and had a heavy procedural bias that fostered a 'form over substance' approach to compliance risk management. The quality of Line 2 assurance across BUs had been variable.

The *Inquiry Report* recommended that CBA strengthen its management of operational and compliance risk. In doing so, it recommended that CBA develop granular metrics for limits relating to non-financial risks in the Group RAS, create and embed minimum standards for management of non-financial risks in policies across the Group, heighten Executive-level focus on emerging non-financial risks, and enhance the ability of Line 2 to fulfil its assurance responsibilities.

CBA's response through the RAP is to build employees' understanding of risk appetite, policies and procedures so that CBA can more proactively identify gaps and manage risks. Changes envisaged include standardising risk management tools across the bank, developing more common risk management language, and developing and monitoring more granular risk metrics to support the bank's risk appetite settings.

The RAP envisages defining and embedding a more robust framework for overseeing and monitoring non-financial risk consistently across the Group.

6.1. Status of Risk Appetite, Taxonomy and Standards Theme Milestones

Milestones for the Risk Appetite, Taxonomy and Standards Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Risk Appetite, Taxonomy and Standards Theme is set out in Table 6.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for four Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.5, 12b.1, 12c.1 and 12d.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed three Risk Appetite, Taxonomy and Standards Theme Milestones (Milestones 12a.4, 12b.1 and 12c.1) as complete and effective. The Closure Pack for Milestone 12a.4 was submitted during the Second Reporting Period.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report








April 2019

- The Program was working on three other Implement and one other Embed Milestones for this Theme. Work had yet to start on four Embed Milestones.

At the Reporting Date, Promontory was assessing one Risk Appetite, Taxonomy and Standards Theme Milestone (Milestone 12d.1) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late March (Milestone 12a.5).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of six of the 16 Risk Appetite, Taxonomy and Standards Theme Milestones had been assessed as complete and effective.










Table 6.1: Progress on Risk Appetite, Taxonomy and Standards Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12a	RAS limits	12a.1 Design	Board to define the OR&CR types that are required to have granular metrics in the Group RAS	Aug-18	
		12a.2 Design	Define the high-level process, timeline and design principles for developing, cascading and monitoring Group-level granular metrics	Aug-18	
		12a.3 Design	Design granular metrics for inclusion in the Group RAS and cascading into the BU/SU	Oct-18	
		12a.4 Implement	Update the Group RAS to incorporate granular metrics for OR&CR types	Nov-18	
		12a.5 Implement	Cascade the Group RAS metrics, triggers and limits into BU/SUs RASs	Mar-19	
		12a.6 Embed	Hold enhanced discussion at ELT NFRC and BRC on risk profile versus risk appetite	May-19	
		12a.7 Embed	BU/SU RASs include metrics for locally material OR&CR	Dec-19	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12b	NFR minimum standards	12b.1 Design	Define criteria for minimum standards in relation to non-financial risk	Dec-18	
		12b.2 Implement	Define minimum standards for prioritised risk types	May-19	
		12b.3 Embed	Embed minimum standard for first wave of prioritised risk types with reporting to ELT NFRC and BRC on progress and non-compliance	May-20 ²⁶	
12c	Emerging risks	12c.1 Design	Dedicate time to consider emerging risks at the ELT NFRC	Dec-18	
		12c.2 Implement	Discuss emerging risks at ELT NFRC	Nov-19 ²⁷	
		12c.3 Embed	ELT NFRC holds high quality discussion on emerging risks and receives effective reporting on risks from BU/SU forums	Jun-20	
12d	Line 2 assurance	12d.1 Design	Define the Line 2 Assurance/Monitoring Program for OR&CR	Dec-18	
		12d.2 Implement	Train Line 2 Staff	Jun-19	
		12d.3 Embed	Complete Line 3 assessment of Line 2 Assurance/Monitoring Program	Apr-20	

²⁶ The due date for Milestone 12b.3 was moved from November 2019 to June 2020 to align with the stages of the RMI Program roll out (which will be the vehicle to implement this Milestone) and so allow for more time to evidence Milestone completion.

²⁷ The due date for Milestone 12c.2 was moved from May to November 2019 to align with the ELT NFRC Forward Agenda and so provide further opportunities for ELT NFRC feedback to be provided on the content of the Emerging Risk Report.

6.2. Risk Appetite, Taxonomy and Standards Theme Milestone Assessment Outcomes

6.2.1. Assessment of Recommendation 12a Milestone

The Target State for Recommendation 12a is that CBA's Group RAS contains granular limits and triggers for OR&CR types that (i) clarify the Board's appetite for OR&CR, (ii) provide for monitoring that gives greater transparency over the risk profiles for those risk types, and (iii) enables the Group to make pre-emptive risk decisions.

a) Milestone 12a.4

Milestone 12a.4 (an Implement Milestone) requires the updated and approved Group RAS to include agreed granular metrics for each required OR&CR type, along with appropriate risk limits and associated triggers.

The Board has approved the modified Group RAS which includes the granular metrics designed under Milestone 12a.3 for required OR&CR types. Each metric has early warning levels designed to promote timely discussions about potential actions, and intervention levels that identify the point at which action is required. The BRC has reviewed and provided feedback on the early warning and intervention levels associated with each risk indicator.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The reasons for removing residual risk indicators from the Group RAS;
- How the metrics are intended to support Board monitoring of the risk profile for each risk type; and
- BRC and Board visibility of limitations to the metrics selected.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Group RAS has been appropriately modified to include granular metrics and accompanying limits and triggers for OR&CR types.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider and confirm that:

- The scope limitations of the metrics are reported to the BRC; and
- Communication to BU/SUs on the revised Group RAS notes the continued importance of residual risk ratings for managing risks.

We also foreshadowed that our assessments of the Implement and Embed Milestones for Recommendation 12e will consider and confirm:

- Whether any identified key control gap is taken into account when checking whether control-related early warning or intervention levels have been exceeded; and

- The processes to review and accept any risks rated High or Very High on a residual risk basis.

6.2.2. Assessment of Recommendation 12b Milestone

The Target State for Recommendation 12b is that clear, simple and enforceable OR&CR minimum standards help uplift non-financial risk management across the Group. The standards are defined in accordance with the standardised OR&CR risk types and are embedded and continually refreshed through existing policy governance processes.

a) Milestone 12b.1

Milestone 12b.1 (a Design Milestone) requires criteria for minimum standards to be defined including expectations on the definition, identification, assessment and measurement of risk, articulation of key compliance obligations, risk appetite considerations, and other aspects of managing those risks (including expected minimum processes, systems and control environment, incident and issue management, governance, and reporting and escalation processes). The Milestone also requires a first wave of prioritised risk types to be defined for which the criteria for minimum standards are to be applied.

CBA has:

- Defined criteria for minimum standards that are to be articulated in OR&CR policies and procedures;
- Prioritised the risk types to which the minimum standards will first be applied; and
- Determined the policies and procedures associated with those prioritised risk types that will be updated to reflect the minimum standards.

The ELT NFRC has approved the criteria for minimum standards and the first wave of prioritised risk types for applying the criteria.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- How the criteria for minimum standards will facilitate uplift of non-financial risk management across BU/SUs in a consistent manner;
- The approach to selecting the criteria for minimum standards;
- The scope of application of the criteria for minimum standards; and
- The approach to determining prioritised risk types for the first wave of amendments.

After Promontory's review, CBA provided:

- An updated template setting out minimum standards for policies;
- New templates setting out minimum standards for OR&CR standards, NFR standards, and procedures; and
- Minutes evidencing approval of the updated minimum standards templates referenced above by the ELT NFRC.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed criteria for clear, simple and enforceable OR&CR minimum standards, and has appropriately prioritised risk types for the first wave of amendments.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider and confirm whether:

- The minimum standards that have been articulated in the relevant policies, standards and procedures are in fact clear, simple, enforceable, and are able to drive consistent risk management practices across the Group; and
- There is a sustainable process in place for integrating OR&CR minimum standards into policies, standards, and procedures that will be uplifted through work outside of the RAP.

6.2.3. Assessment of Recommendation 12c Milestone

The Target State for Recommendation 12c is that the ELT NFRC dedicates specific time in meeting agendas to understanding and addressing emerging risks, resulting in the proactive identification and management of risks. The Target State envisages the ELT NFRC focusing on short- and long-term emerging risks, control gaps and issues identified through CBA's internal processes and systems.

a) Milestone 12c.1

Milestone 12c.1 (a Design Milestone) requires the ELT NFRC to dedicate time (at least quarterly) to considering emerging risks in meeting agendas, and to commence regular committee reporting on emerging risks, including a focus both on 'big picture'/'horizon scanning' longer-term emerging risks, and shorter-term 'surfacing' emerging risks, control gaps, and issues identified through CBA's OR&CR process and systems.

CBA has developed a definition of emerging risk, designed an Emerging Risks Report and included quarterly Emerging Risk Reporting in the ELT NFRC Forward Agenda. It has foreshadowed that reporting will be produced at BU/SU level.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The timing of the first quarterly Emerging Risks Report and the identity of the person(s) responsible for presenting it;
- The content of the Emerging Risk Report and who would be responsible for presenting it;
- The definition of emerging risks, in particular the concepts of surfacing and horizon risks; and
- The mechanisms used to aggregate emerging risks across CBA.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that appropriate time has been dedicated for consideration of emerging

risks at the ELT NFRC and that reporting of emerging risks for regular discussion at the Committee has commenced.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider:

- How the aggregated list of horizon risks (and surfacing risks, as applicable) is formed from, and attributed to, underlying BU and SU emerging risk profiles;
- How 'target' residual risk levels are agreed and communicated; and
- Action plans for the most severe emerging risks detailed for the Committee.

7. Accountability and Controls Delivery Theme Milestones

The Accountability and Controls Delivery Theme deals with *Inquiry Report* Recommendations on the Group's control environment, the conduct of root cause analysis, and the resolution of significant and outstanding issues.

The *Inquiry Report* found shortcomings in CBA's handling of issues escalated from staff, customers and regulators. CBA had difficulty identifying broad systemic issues in its business and resolving identified issues as a result of organisational complacency, low senior-level oversight, and weak project execution capabilities. In addition, the *Inquiry Report* noted significant scope for improvement in CBA's control environment.

The *Inquiry Report* recommended that the CBA Board and Executive Committee improve their processes for monitoring issues, and end tolerance for untimely and ineffective resolution of significant, outstanding matters of concern. It also recommended that CBA ensure its control environment is robust, reflecting effective control design and testing, and that root causes of issues are addressed in a timely and effective manner.

CBA's response through the RAP centres on improving the processes used to manage risk, and the environment in which that risk is managed.

In particular, the RAP envisages refreshing CBA's risk profiles so they are comprehensive and consistent, assessing current risk controls and improving them where necessary. It also envisages enhancing root cause analysis and implementing a number of measures to ensure timely and effective resolution of outstanding issues.

7.1. Status of Accountability and Controls Delivery Theme Milestones

Milestones for the Accountability and Controls Delivery Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Accountability and Controls Delivery Theme is set out in Table 7.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for four Accountability and Controls Delivery Theme Milestones (Milestones 12e.1, 12e.2, 12f.1 and 16.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed three Accountability and Controls Delivery Milestones (Milestones 12e.1, 12f.1 and 16.1) as complete and effective.
- The Program was working on three other Implement Milestones for this Theme. Work had not begun on any of the three Embed Milestones for this Theme.

At the Reporting Date, Promontory was yet to start its review of one other Accountability and Controls Delivery Theme Milestone, the Closure Pack for which was submitted in late March (Milestone 12e.2).

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of three of the 10 Accountability and Controls Delivery Theme Milestones had been assessed as complete and effective.

Table 7.1: Progress on Accountability and Controls Delivery Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
12e	Control environment	12e.1 Design	Develop the approach to operationalise the Group OR&CR frameworks to uplift the control environment through the RMI program	Dec-18	●
		12e.2 Implement	Establish an initial baseline understanding of material risks and controls for each BU/SU	Mar-19	◐
		12e.3 Implement	Complete prioritised risk and control reviews for each BU/SU	Nov-19	◑
		12e.4 Embed	Evidence of uplift in risk and control environment provided by each BU and Group standards fully operationalised	Jun-20	○
12f	Root causes	12f.1 Design	Define root cause analysis as part of the Issues Management Standard	Dec-18	●
		12f.2 Implement	Implement root cause analysis as part of the Issues Management Standard	Dec-19	◑
		12f.3 Embed	Root cause analysis completed for all issues prescribed in the Issues Management Standard	Mar-20	○
16	Issue management	16.1 Design	Design the Issues Management Standard	Dec-18	●
		16.2 Implement	Roll out updated Issues Management Standard to each BU/SU	Dec-19	◑
		16.3 Embed	BU/SUs manage all issues in line with Issues Management Standard	Mar-20	○

7.2. Accountability and Controls Delivery Theme Milestone Assessment Outcomes

7.2.1. Assessment of Recommendation 12e Milestone

The Target State for Recommendation 12e is that the end-to-end risk and control environment is consistently reviewed and assessed in detail, and challenged by Line 2. The Target State envisages that gaps in the operating and control environment are captured as issues and addressed to maintain risks in line with risk appetite. The Target State also envisages that risk management practices including OR&CR frameworks are fully operationalised into the business. The Target State envisages delivery will be supported by the roll out of the RMI Program.

a) Milestone 12e.1

Milestone 12e.1 (a Design Milestone) requires CBA to agree an approach to operationalising the Group OR&CR frameworks to uplift the control environment through the RMI Program.

CBA has established the RMI Program to operationalise the OR&CR framework components in a prioritised manner across the Group.

The ELT NFRC has endorsed the RMI Program's scope and approach.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The scope of uplifts delivered through the RMI Program and the approach to ensuring consistent application across BU/SUs;
- The rationale behind the design of the risk identification and assessment activities;
- How new 90-day risk profile reviews incorporated in the RMI Program will enable prioritised and proactive investment to maintain an operating environment in line with risk appetite; and
- When the design of the uplifts delivered through the RMI Program will be formalised and documented.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the RMI Program approach provides a basis for operationalising OR&CR frameworks into the BU/SUs consistently and uplifting the control environment. The risk identification and assessment activities being delivered through the RMI Program provide a basis for detailed and effective assessments of the Group's risk and control environment.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider:

- Whether CBA has identified and documented improvement opportunities based on the activities conducted in earlier stages of the RMI Program, and if those improvements have been evidenced in later stages of the Program;
- Whether the design of the uplifts delivered through the RMI Program have been appropriately formalised and consistently embedded across the Group; and
- Whether BU/SUs are utilising funding to maintain an operating environment in line with risk appetite.

7.2.2. Assessment of Recommendation 12f Milestone

The Target State for Recommendation 12f is that BU/SUs consistently meet a revised issue management standard that ensures root cause analysis is conducted where appropriate, Line 2 and Line 3 assurance roles are specified, that adequate actions are taken by Line 1 to ensure that the issue has been addressed at the time of closure, and steps are in place to monitor the risk of recurrence.

a) Milestone 12f.1

Milestone 12f.1 (a Design Milestone) requires that root cause analysis is defined as part of the Issue Management Standard (developed under Milestone 16.1), with the Standard including requirements about the conduct of the analysis and response to its findings.

CBA has developed an Issue Management Standard and supporting root cause analysis procedure. The standard has been approved by the ELT NFRC and BAC. The Standard provides a definition of 'root cause' (distinguished from a 'symptom'), describes the process for conducting and documenting the analysis and responding to the analysis, and the roles and responsibilities of Lines 1, 2 and 3 under the Standard.

After reviewing the Closure Pack for Milestone 12f.1, Promontory requested and received further information and interviewed relevant stakeholders about guidance provided to staff conducting root cause analysis and the application of the root cause analysis procedure to existing issues.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed an appropriate Issue Management Standard that requires root cause analysis to be conducted for all new issues, sets out clear accountabilities for Lines 1, 2 and 3 and for ensuring action plans are developed and issues are resolved in a timely manner.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider the training programs provided to support root cause analysis workshops, and the approach to the application of root cause analysis to existing issues.

7.2.3. Assessment of Recommendation 16 Milestone

The Target State for Recommendation 16 is that the ELT and Board have timely and effective oversight of issues raised by internal audit, regulators, staff and other sources, that BU/SUs have processes to identify, manage and ensure resolution of issues in a timely and effective manner, and that appropriate assurance (including appropriate Line 2 and Line 3 assurance) is in place to ensure effective resolution.

a) Milestone 16.1

Milestone 16.1 (a Design Milestone) requires CBA to develop an issue management standard that sets out requirements for root cause analysis, issue classification and ownership, reporting, escalation, assurance, and issue closure.

CBA has developed an Issue Management Standard and supporting root cause analysis procedure. The standard covers the following:

- A definition for 'symptom' and 'root cause' that clearly distinguishes between the two;
- Formal root cause analysis requirements;
- A revised definition of an issue;
- Requirements relating to issue ownership;
- Guidance for expected timelines for closure based on degree of difficulty;
- High-level requirements to report and escalate certain matters (including extensions and missed due dates, Red audit issues and cross-BU/SU or Line of Business thematic High-rated issues) to the ELT NFRC, BRC, and BU/SU governance forums;
- Requirements for Line 1 Risk Owners to review quality of issue closure, and to monitor the risk of recurrence (via monitoring of controls and KRIs); and
- Roles for Line 2 and Line 3, including the quality of issue closure.

The Standard has been approved by the ELT NFRC and the BAC.

After reviewing the Closure Pack for Milestone 16.1, Promontory requested and received further information and interviewed relevant stakeholders about:

- The definition and scope of the term 'issues';
- Accountabilities for assigning the issue owner and issue rating;
- The role of Lines 2 and 3 when closing issues; and
- Processes for reporting, escalating and decision-making.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has developed an appropriate Issue Management Standard that includes requirements for root cause analysis, issue classification and ownership, reporting, escalation, assurance, and issue closure.


As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider:

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019



- The treatment of audit and regulatory findings that are not classified as 'issues';
- How issues are being classified as 'systemic';
- The role of Line 3 in closing audit issues; and
- Guidance provided to BU/SUs to determine issue ratings.

We also foreshadowed that our assessment of the Embed Milestone for Recommendation 8 will consider the changes made to the ELT NFRC Charter to align to the Issue Management Standard.

8. Customer Outcomes Theme Milestones

The Customer Outcomes Theme deals with *Inquiry Report* Recommendations on conduct risk, customer complaints reporting, identifying systemic issues, and championing the 'should we' question.

The *Inquiry Report* found that CBA had, in the past, applied a narrow definition of conduct risk which focused primarily on risk arising through the design and distribution of CBA's products. The Report also found that CBA had difficulty identifying broad, systemic issues in its businesses, including linking sources of risk data across the institution and analysis of customer complaints. The CBA Board did not receive any metrics or analysis of customer complaints and reporting to the Executive Committee did not emphasise severe customer complaints. The Report found that there were examples of decisions being made in which financial objectives were implicitly prioritised over the 'customer voice'.

The *Inquiry Report* recommended that CBA review its conduct risk profile in BUs, incorporate the findings into its Conduct Risk Strategy and ensure that conduct risk is fully considered in decision-making processes. The Report also recommended that CBA report on customer complaints to the Board and Executive Committee, and prioritise investment in the identification of systemic issues from customer complaints. The Report recommended that Leadership champion the 'should we' question.

CBA's response through the RAP is to put in place changes that will make dealing with CBA simpler and fairer for customers, particularly when things have gone wrong.

In particular, the RAP envisages changes being made to improve the way customer complaints are reported, and systemic issues are identified and fixed. It also envisages embedding the 'should we' question as part of key decision-making processes and actions so there is a clearer focus on ensuring good customer outcomes across the organisation.

8.1. Status of Customer Outcomes Theme Milestones

Milestones for the Customer Outcomes Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Customer Outcomes Theme is set out in Table 8.1, and is discussed in more detail below.

During the Reporting Period:

- The Program submitted Closure Packs for four Customer Outcomes Theme Milestones (Milestone 15.2b, 15.3, 17.1 and 18.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed one Customer Outcomes Theme Milestone (Milestones 15.2b) as complete and effective.
- The Program was working on one other Design and three other Implement Milestones for this Theme. Work had yet to start on one Implement Milestone. Work had not begun on any of the four Embed Milestones for this Theme.

Independent Review of the Commonwealth Bank's Remedial Action Plan










Third Report

April 2019

At the Reporting Date, Promontory was assessing two Customer Outcomes Theme Milestones (Milestones 17.1 and 18.1) and was yet to start its review of one other Milestone, the Closure Pack for which was submitted in late March (Milestone 15.3).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of three of the 15 Customer Outcomes Theme Milestones had been assessed as complete and effective.







Table 8.1: Progress on Customer Outcomes Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Status
15	Conduct Risk Strategy	15.1 Design	Develop and CEO communicate 'Values expectations'	Aug-18	
		15.2a Design	Develop the Code of Conduct, and accompanying roll-out plan	Oct-18	
		15.2b Design	Ensure the conduct components of Group Risk Management Approach (RMA) and RAS support improvement in conduct risk management	Dec-18	
		15.3 Implement	Code of Conduct rolled out, including communication and training	Mar-19	
		15.4 Implement	Implement Conduct Risk Strategy across the Group	Dec-19	
		15.5 Embed	Conduct Risk Strategy embedded across the Group	Dec-20	
17	Customer complaints	17.1 Design	Design the complaints reporting standard and define supporting data and system requirements	Dec-18	
		17.2 Implement	Review complaints reports at ELT NFRC, BRC and BU/SU Risk Committees	Jun-19	
		17.3 Embed	Regular complaints reporting to applicable forums that demonstrates BU/SUs are responding to complaints in a timely manner and addressing underlying issues	Sep-19	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
18	Systemic issues	18.1 Design	Develop the criteria and plan to enhance systemic issues identification and reporting	Dec-18	
		18.2 Implement	Review systemic issues reports at ELT NFR, BRC and BU/SU Risk Committees	Jun-19	
		18.3 Embed	Regular reporting to ELT NFRC and BRC on systemic issues	Sep-19	
21	'Should we'	21.1 Design	Incorporate customer outcomes into key Group policies	Jun-19	
		21.2 Implement	BU/SUs implement changes required as a result of changes to key Group policies	Dec-19	
		21.3 Embed	Apply key Group policies related to 'Customer and Communities' outcomes	Jun-20	

8.2. Customer Outcomes Milestone Theme Assessment Outcomes

8.2.1. Assessment of Recommendation 15 Milestone

The Target State for Recommendation 15 is that consideration of conduct is fully embedded across CBA, including in key decision-making processes, risk profile reviews and employee life-cycle management. This includes the Group's RMA setting out clear principles on conduct, and being supported by a well-communicated and well-understood Code of Conduct. It also includes the Group RAS providing clear metrics and qualitative statements that define CBA's appetite with respect to conduct risk.

a) Milestone 15.2b

Milestone 15.2b (a Design Milestone) requires that the conduct components of the Group RAS and Group RMA are assessed to ensure that together they support the improvement of conduct risk management across the Group.

CBA has included clear metrics and qualitative statements in the Group RAS that support conduct risk management. CBA has also updated the Group RMA to provide clarity on conduct expectations.


After reviewing the Closure Pack for this Milestone, Promontory requested and received further information about:

- How CBA conducted its assessment of the Group RMA and Group RAS to determine the changes necessary to support improved conduct risk management;

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019



- How the Group RMA and Group RAS are to be made accessible and cascaded to staff; and
- The feedback provided by the ELT and/or Board on the Group RMA.

Based on our assessment of the Milestone Closure Pack, and the additional information we received, we concluded that CBA has conducted an assessment concluding that the Group RMA and RAS support the improvement of conduct risk management.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

9. Culture, Capability and Consequences Theme Milestones

The Culture, Capability and Consequences Theme deals with *Inquiry Report* Recommendations on culture, the resourcing and capability of the non-financial risk function, accountability and remuneration.

The *Inquiry Report* identified a set of cultural themes that had inhibited sound risk management in CBA, including widespread complacency, reactivity rather than pre-emption regarding risk, not fully 'walking the talk' when it came to risk management, and over-reliance on good intent.

The *Inquiry Report* found inadequate resourcing and a lack of capability in CBA's operational and compliance risk management functions. It also found that a lack of accountability had been a common theme underlying several of the issues observed in the Inquiry. Further, the Report observed significant weaknesses in the implementation and broader oversight of the remuneration process in CBA, particularly in adjusting remuneration as a result of poor risk and customer outcomes.

On **culture**, the *Inquiry Report* recommended that CBA take a holistic approach to ensuring a robust and healthy risk culture. It made four recommendations focused primarily on the role of leaders in driving cultural change.

On **capability**, the *Inquiry Report* recommended that CBA build up the capabilities and subject matter expertise of operational and compliance risk staff.

On **accountability**, the *Inquiry Report* recommended building on the foundation established by the Banking Accountable Executive Regime (**BEAR**) by incorporating a set of Accountability Principles set out in the Report. The Principles are intended to place the onus for individual and collective accountability on the CEO and Group Executives.

On **remuneration**, the *Inquiry Report* recommended that CBA introduce changes to its remuneration framework and to the governance and effective application of that framework.

CBA's response through the RAP is to create a culture that recognises the importance of sound operational and compliance risk management, to build the capability of employees to manage these risks, and to deliver consequences for employees whose actions lead to poor outcomes for customers.

In particular, the RAP envisages extensive measures to uplift CBA's risk culture driven by its leaders, measures to uplift the resourcing and capability of its non-financial risk management functions, incorporating and cascading the Accountability Principles through the organisation, and changing the content, governance and application of its remuneration framework.

9.1. Status of Culture, Capability and Consequences Theme Milestones

Milestones for the Culture, Capability and Consequences Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Culture, Capability and Consequences Theme is set out in Table 9.1, and is discussed in more detail below.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019







During the Reporting Period:

- The Program submitted Closure Packs for 10 Culture, Capability and Consequences Theme Milestones (Milestones 13.1, 22.1, 23.1, 24c.1, 25a.1, 25b.1, 27.1, 28.1, 29.1 and 30.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed two Culture, Capability and Consequences Theme Milestones (Milestones 22.1 and 25c.2) as complete and effective. The Closure Pack for Milestone 25c.2 was submitted in the Second Reporting Period.
- The Program was working on two other Design, 12 other Implement and two other Embed Milestones for this Theme. Work had yet to start on 12 Embed Milestones.

At the Reporting Date, Promontory was yet to start its review of nine Culture, Capability and Consequences Theme Milestones, the Closure Packs for which were submitted in late March (Milestones 13.1, 23.1, 24c.1, 25a.1, 25b.1, 27.1, 28.1, 29.1 and 30.1).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of six of the 43 Culture, Capability and Consequences Theme Milestones had been assessed as complete and effective.













Table 9.1: Progress on Culture, Capability and Consequences Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
13	Resourcing	13.1 Design	Design the risk capability uplift plan	Mar-19	
		13.2 Implement	Implement training, recruitment and retention capability uplift	Mar-20	
		13.3 Embed	Refresh of risk capability plans presented to ELT NFRC and targeted plans for the year developed	Feb-21	
22	Accountability Principles	22.1 Design	Design plans to incorporate and communicate APRA's Accountability Principles into existing accountability frameworks and processes	Dec-18	
		22.2 Implement	Implement Accountability Principles via BEAR requirements, existing accountability frameworks and staff communication	Aug-19	
		22.3 Embed	Accountability consequences are reflected in key individuals' performance reviews and the remunerations and consequences outcomes for FY20	Aug-20	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report










April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
23	Board governance of remuneration	23.1 Design	Develop plans for enhanced Board governance and processes for remuneration	Mar-19	
		23.2 Implement	Implement enhanced governance processes including increased reporting and review	Aug-19	
		23.3 Embed	Board RemCo exercises stronger governance on CEO and Group Executive remuneration outcomes	Oct-20	
24a	CRO assessment	24a.1 Design	Enhance the CRO assessment of CEO and Group Executive risk scorecards	Jun-18	
		24a.2 Implement	Finalise enhanced CRO assessment of CEO and Group Executive performance	Aug-18	
		24a.3 Embed	The Board uses further enhanced CRO assessment in determining appropriate CEO and Group Executive remuneration outcomes	Aug-19	
24b	Analytics and reporting	24b.1 Design	Develop plan for enhanced analytics and reporting on remuneration outcomes to be provided to the RemCo	Jul-19	
		24b.2 Implement	Improve analytics and reporting provided to Board	Oct-19	
		24b.3 Embed	Management provides analytics and reporting in line with Target State requirements	Feb-21	
24c	Board Risk Committee support	24c.1 Design	Develop co-ordinated approach for Board Committees to ensure that risk outcomes are reflected in CEO and Group Executive remuneration	Mar-19	
		24c.2 Implement	Co-ordination between BRC, BAC and RemCo and referral of key matters to and sharing information with RemCo	Oct-19	
		24c.3 Embed	Annual remuneration review and allocation of Short-Term Variable Remuneration (STVR) payments under the new STVR model	Dec-20	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report











April 2019







#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
25a	Board guidance on risk adjustments	25a.1 Design	Strengthen guidance to Management on the Board's expectations for risk adjustments to remuneration outcomes	Mar-19	
		25a.2 Implement	Incorporate strengthened Board guidance into FY19 remuneration reviews	Aug-19	
		25a.3 Embed	FY19 remunerations outcomes across all staff reflect Board guidance	Oct-19	
25b	Risk function support on risk adjustments	25b.1 Design	Design an enhanced approach for risk assessment that appropriately penalises or rewards risk and compliance and outcomes	Mar-19	
		25b.2 Implement	New process in place to strengthen the role of the risk function in FY19 remuneration reviews	Aug-19	
		25b.3 Embed	FY19 remuneration outcomes across all staff analysed and reflect robust applications of the risk modifier	Oct-19	
25c	Communication of outcomes	25c.1 Design	Develop a communications mechanism and strategy to communicate the impact of both good and poor risk outcomes to CBA staff	Oct-18	
		25c.2 Implement	Communicate good and poor FY18 risk outcomes with the organisation	Nov-18	
		25c.3 Embed	FY19 risk and remuneration outcomes exhibit appropriate aggregation and anonymization, and communications approach revised	Nov-19	

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
26	Remuneration framework review	26.1 Implement	Implement upside remuneration facility for positive risk assessment	Oct-18	
		26.2 Design	Review the Group Remuneration Policy, informed by better global practices	Jun-19	
		26.3 Implement	Reflect enhancements in FY19 remuneration outcomes	Jun-20	
		26.4 Embed	FY20 remuneration outcomes reviewed by RemCo and shown through analysis to be consistent with the fully updated remuneration frameworks and policies	Oct-20	
27	Culture of self-reflection	27.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours with targeted initiatives on self-reflection	Mar-19	
		27.2 Implement	Implement targeted interventions on senior leader capability, leadership diagnostics and performance assessment	Mar-20	
		27.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to reinforce senior leadership challenge	Feb-21	
28	Personal and authentic leadership	28.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on role-modelling by senior leaders	Mar-19	
		28.2 Implement	Implement targeted interventions and annual re-assessment of leader led training and senior leader communications	Mar-20	
		28.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to cascade good risk management	Feb-21	

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
29	BU/SU relationships	29.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on the relationship between business and risk functions	Mar-19	
		29.2 Implement	Implement targeted interventions including Lines 1 and 2 engagement forums and career pathways	Mar-20	
		29.3 Embed	Conduct annual risk culture reassessment and refresh of the targeted initiatives to ensure effective working relationship between BUs and Risk	Feb-21	
30	Vision and Values	30.1 Design	Establish baselines and develop plans to uplift risk culture mindsets and behaviours, with targeted initiatives on conduct and values	Mar-19	
		30.2 Implement	Implement targeted interventions including communications, recognition, values performance assessment and HR processes	Mar-20	
		30.3 Embed	Conduct annual risk culture reassessment and refresh the targeted initiatives to shift staff mindsets and behaviours	Feb-21	

9.2. Culture, Capability and Consequences Theme Milestone Assessment Outcomes

9.2.1. Assessment of Recommendation 22 Milestone

The Target State for Recommendation 22 is that the Accountability Principles set out in the *Inquiry Report* are incorporated into Accountability Statements for Group Executives and tailored and cascaded across CBA. The Target State also requires that the culture and framework for accountability is embedded in CBA to ensure clarity of ownership, strong end-to-end collective accountability and proportionate consequences for poor risk and customer outcomes.

a) Milestone 22.1

Milestone 22.1 (a Design Milestone) requires the Accountability Statements for Group Executives (under the BEAR) to be aligned to the Accountability Principles. It also requires a review (and where necessary redesign) of existing accountability frameworks and processes to define accountability across the Group, and a plan to be developed to tailor and communicate to lower-level staff.

The Accountability Statements for Group Executives have been reviewed and their alignment with the Accountability Principles confirmed. The ELT has also approved an approach to reviewing and redesigning accountability frameworks and processes and plans to tailor and cascade the Accountability Principles to EGMs and GMs. The plan includes developing Accountability Statements for EGMs and, for lower-level staff, there are plans to revise KPIs and targets to incorporate the Principles.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The processes for incorporating the Accountability Principles into Accountability Statements;
- The processes and thinking applied to reviewing accountability frameworks; and
- Plans to communicate, tailor and cascade the Accountability Principles to staff at lower levels.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has appropriate plans to embed accountability across the Group.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that, given the high-level nature of a number of the design elements, our assessments of the Implement and Embed Milestones for this Recommendation will consider and confirm (where relevant) a number of matters including the following:

- That BEAR Accountability Statements including all APRA Accountability Principles have been endorsed by each Accountable Person and lodged with APRA;
- EGM Accountability Statements, GM Workbooks and supporting artefacts to evidence discharge of accountabilities have been completed;
- The approach to revising role statements;
- The approach undertaken for staff communication and training on:
 - The enhanced accountability frameworks and processes;
 - Cascading and tailoring the Accountability Principles to lower level staff; and
 - Consequence management actions;
- The effectiveness of the governance arrangements to co-ordinate activities for other Milestones and projects, and progress to redesign frameworks and processes to define accountability across the Group; and
- The approach to tailoring and cascading the Accountability Principles to lower level staff.

9.2.2. Assessment of Recommendation 25c Milestone

The Target State for Recommendation 25c is that there is appropriate internal and external transparency, and communication, about the remuneration impact of positive and negative risk outcomes, which reinforces CBA's culture expectations and accountabilities.

a) Milestone 25c.2

Milestone 25c.2 (an Implement Milestone) requires CBA to communicate to staff the impact of both good and poor risk outcomes, and to evaluate and incorporate staff feedback into plans for future performance reviews.

CBA has communicated the remuneration impacts of good and poor risk behaviours based on the FY18 performance cycle (including anonymised case studies). Initial staff feedback has been analysed and will be used to refine future communication content and strategies.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The relative emphasis in communication about the impact on remuneration of good and poor risk outcomes;
- The detail to be communicated in the future on examples of both good and poor risk outcomes; and
- Plans for further staff feedback and how it will be used to refine the communications strategy.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has appropriately communicated the impact on remuneration of both good and poor risk behaviours to staff. Initial staff feedback has been analysed to be used, along with further planned staff feedback, to refine the communications approach.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation will consider whether the communication of risk and remuneration outcomes for the FY19 performance cycle:

- Appropriately balances messaging around the impact of both good and poor risk outcomes; and
- Whether the communication provides sufficient transparency and analysis of both good and poor risk behaviours and the associated remuneration impacts, both at an aggregate level and in relation to specific examples.

10. Program Execution Theme Milestones

The Project Execution Theme deals with *Inquiry Report* Recommendations on aspects of managing the Program to deliver against *Inquiry Report* Recommendations, strengthening the role of Line 2 in Risk in Change processes (that is processes to consider the risk implications of and controls required to manage impacts of material change programs), and improving prioritisation of investment in risk and regulatory projects.

The *Inquiry Report* noted that CBA's track record in delivering major risk initiatives had been a chequered one. It noted that remediation programs that fail typically do so not for want of design, but for want of execution.

The *Inquiry Report* also found that adequate measures had not been in place to ensure sufficient Line 2 oversight of Risk in Change assessments. It also found that CBA had generally only addressed risk, compliance and resilience issues on a reactive basis once they had become 'high-rated' issues.

On program execution, the *Inquiry Report* recommended CBA senior leadership be identified, held accountable and remunerated for the success of major risk initiatives. It recommended that organisational capacity be created to deliver the Program, and that rigorous project disciplines for delivering risk initiatives be developed. It also recommended that CBA strengthen the Risk in Change process to ensure effective oversight from Line 2, and take a more pre-emptive approach to investments in risk management, compliance, and resilience areas.

CBA's response through the RAP is to strengthen implementation of change programs by implementing and maintaining delivery standards, sharing insights and focusing on building the capability of people charged with delivering programs.

In particular, the RAP envisages enhanced project management disciplines, strengthened Line 2 involvement in Risk in Change activities and improved processes for prioritisation of risk management program investments.

10.1. Status of Program Execution Theme Milestones

Milestones for the Program Execution Theme Recommendations are on-track for completion by the due dates set out in the RAP.

Progress in the Program Execution Theme is set out in Table 10.1, and is discussed in more detail below.

As noted in Section 2.1, the Program added two new Milestones (Milestones 33a.2 and 33a.3) to this Theme during the Relevant Period (and renamed four other Milestones (Milestones 33a.1, 33b.1, 33b.2 and 33b.3) to account for the additional Milestones). These Milestones address how BU/SU resourcing and IT needs will be updated and monitored through the life of the Program, as described in section 10.2.3.

During the Reporting Period:

- The Program submitted Closure Packs for six Program Execution Theme Milestones (Milestones 20.1, 31.2, 32.1, 33a.2, 33b.2 and 34.1) to Promontory. Closure Packs were in all cases submitted before the due dates set out in the RAP.
- Promontory assessed six Program Execution Theme Milestones (Milestones 20.1, 31.2, 33a.1, 33b.1, 33b.2 and 34.1) as complete and effective. The Closure Packs for Milestone 33b.1 and 33a.1 were submitted in the Second Reporting Period.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report








April 2019

- The Program was working on two other Design and three other Implement Milestones for this Theme. Work had yet to start on one Design and two Implement Milestones. Work had not begun on any of the eight Embed Milestones for this Theme.

At the Reporting Date, Promontory was yet to start its review of two other Program Execution Theme Milestones, the Closure Packs for which were submitted in late March (Milestones 32.1 and 33a.2).

Taking into account Milestones assessed as complete and effective in previous Reporting Periods, as at the Reporting Date, a total of seven of the 25 Program Execution Theme Milestones had been assessed as complete and effective.

Table 10.1: Progress on Program Execution Theme Milestones

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
11	Risk in change	11.1 Design	Revise Risk in Change practices to strengthen the role of Line 2	Jul-19 ²⁸	
		11.2 Design	Develop BU/SUs plans to implement the revised Risk in Change methodology, and update the Line 2 assurance program	Jun-19	
		11.3 Implement	BU/SUs implement Risk in Change methodology	Dec-19	
		11.4 Embed	BU/SUs have demonstrated effectiveness of Risk in Change in core processes as evaluated by Line 2	Jul-20	
20	Investment prioritisation	20.1 Design	Revise the Investment Prioritisation Process (IPP) in relation to risk and regulatory projects	Dec-18	
		20.2 Implement	Develop quarterly ELT dashboard on investment allocation	Nov-19 ²⁹	
		20.3 Embed	IPP cycle completed having incorporated new process and with new reporting on emerging risk and pre-emptive risk investment	Dec-19	

²⁸ The due date for Milestone 11.1 was moved from March to July 2019 to address design concerns raised in late March by the ELT NFRC.

²⁹ The due date for Milestone 20.2 was moved from March to November 2019 to allow CBA more time to evidence Milestone completion given commencement of the revised IPP process was deferred from November 2018 to March 2019 and the impact on the Program's ability to provide evidence of Milestone completion.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
31	Skin in the game	31.1 Design	Define changes to the CBA Group Delivery Framework (GDF) to require CBA delivery leads to have appropriate skills and experience, and with KPIs/objectives tied to successful program delivery	Sep-18	●
		31.2 Implement	Identify programs that require senior leaders to perform a lead role and update KPIs	Dec-18	●
		31.3 Embed	Performance Reviews of delivery leads reflect delivery KPI allocations	Nov-20	○
32	Consequences	32.1 Design	Define changes to the GDF in relation to remuneration outcomes reflecting delivery requirements and accountabilities	Mar-19	◐
		32.2 Implement	Update KPIs for relevant staff to reflect delivery requirements and standards	Sep-19	◑
		32.3 Embed	Performance reviews of BEAR Accountable Executives reflect KPI allocations	Sep-20	○
33a	Organisation capacity	33a.1 Design	Define resourcing and technology needs to support delivery of the 35 APRA Recommendations	Sep-18	● ³⁰
		33a.2 Implement	BU/SU BROP resource forecasting process defined	Mar-19	◐
		33a.3 Embed	Regularly review BU/SU BROP resource forecasting	Dec-20	○

³⁰ We received a final piece of evidence and formally assessed this Milestone as complete and effective on 5 April 2019. For the purposes of this Report we consider the Milestone to have been assessed as complete and effective in the Reporting Period.

Independent Review of the Commonwealth Bank's Remedial Action Plan

Third Report

April 2019

#	Recommendation Description	Milestone	Milestone Description	Milestone Due Date	Milestone Progress
33b	Organisation capacity	33b.1 Design	Design 'capacity' prioritisation processes and guidelines to assist with program decisioning	Nov-18	●
		33b.2 Implement	Stop or defer existing Programs as directed by ELT and reallocate funding to delivery of Recommendations	Dec-18	●
		33b.3 Embed	Regularly consider in line with the IPP process the need to stop Programs in flight	Jun-20	○
34	Project disciplines and review	34.1 Design	Enhance the GDF to ensure it is fit for purpose for all Programs in the Group	Dec-18	●
		34.2 Implement	Enhance CBA GDF including formalising Stage Gate review, Health Checks, required skillsets and risk in change process	Jul-20	◐
		34.3 Embed	Regularly consolidate a Program status view of all IPP endorsed Programs	Nov-20	○
35	Embedding project framework	35.1 Design	All Design Milestones are assessed as effective	Jul-19	○
		35.2 Implement	All Implement Milestones are assessed as effective	Nov-19	○
		35.3 Embed	The appropriate areas have demonstrated effective deployment of the design standards	Mar-21	○

10.2. Program Execution Theme Milestone Assessment Outcomes

10.2.1. Assessment of Recommendation 20 Milestone

The Target State for Recommendation 20 is that the IPP provides a more balanced view of risk considerations, resulting in a more pre-emptive approach to investment in risk and regulatory projects. The IPP is the process used to prioritise funding and delivery of major programs of work requiring investment at the Group level. The Target State also envisages that regular reporting of IPP outcomes to the ELT creates transparency about the process.

a) Milestone 20.1

Milestone 20.1 (a Design Milestone) requires the development and endorsement by the ELT of a revised IPP that includes formal signoff of proposed investments by Line 1 and Line 2, consideration of customer perspectives, and classification and prioritisation of risk and regulatory initiatives.

CBA has revised the IPP, with the revised process including:

- Requirements for Line 1 and Line 2 sign-off of BU/SU priorities submitted to the IPP, with input from Line 1 Risk, the BU NFRC and the BU CRO;
- Requirements for formal review and sign-off from Group Operational Risk and Compliance Risk (including the Group CRO) of proposed investments;
- Consideration of additional risk and customer perspectives through the consideration of emerging risks by the NFRC, formal risk acceptance by the NFRC, and input from the Group Customer Advocate at the submission stage;
- Introduction of a preliminary ELT capital allocation by BU/SUs for five investment categories to provide guardrails for ongoing IPP allocation; and
- Regular reporting to the ELT NFRC and ELT on project status, with governance to be provided by an Enterprise Program Management Office.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- Documentation of the IPP;
- The scope of the IPP;
- The end-to-end process of investment prioritisation, in terms of information flows, accountabilities for approval, and interactions between stakeholders; and
- Governance and accountabilities.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has appropriately revised its investment prioritisation process, with that process including appropriate signoff by Line 1 and Line 2, adequate consideration of risk, compliance and customer perspectives, and prioritisation of risk and regulatory initiatives.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessments of the Implement and Embed Milestones for this Recommendation will consider:

- How the definitions of the investment categories are being applied;
- How those definitions map to the IPP's objectives; and
- Whether there is a need for further definitions and guidance to BUs.

10.2.2. Assessment of Recommendation 31 Milestone

The Target State for Recommendation 31 is that all IPP-endorsed programs have a senior level sponsor and a business lead and delivery lead with appropriate skills and experience. Remuneration outcomes reflect formal assessment of successful program delivery. External parties are not appointed to lead IPP-endorsed programs.

a) Milestone 31.2

Milestone 31.2 (an Implement Milestone) requires the lead roles of existing IPP-endorsed programs to be filled by permanent CBA staff and for these staff to have KPIs that reflect delivery requirements.

CBA has reviewed all existing IPP programs and confirmed that all Program Leads are senior CBA staff. Line 2 has conducted a sample-based review to validate that Program Leads have FY19 KPIs that reflect delivery requirements. CBA plans to develop an exceptions process to provide some discretion on a case-by-case basis in relation to seniority and KPIs.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- The criteria used by CBA to review roles and KPIs;
- How the Line 2 review was conducted;
- Plans for the ELT to approve the exceptions processes; and
- The application of the review to BROP-related programs.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that the Program has appropriately allocated internal senior staff to lead IPP-endorsed programs, with appropriate incentive structures that align with successful program delivery.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we foreshadowed that our assessment of the Embed Milestone for this Recommendation (and our assessment of the Implement and Embed Milestones for Recommendations 20 and 34) will test the sustainability of processes designed to confirm seniority and employment status of Program Leads, including the exception process.

10.2.3. Assessment of Recommendation 33a Milestone

The Target State for Recommendation 33a is for CBA to be able to ensure sufficient resources are made available to ensure the prioritisation of the Recommendations of the *Inquiry Report* through to successful delivery.

a) Milestone 33a.1

Milestone 33a.1 requires CBA to define resourcing need (skills, capability and capacity) as well as technology needs in support of delivery of the 35 APRA Recommendations.

CBA delivered the Closure Pack for Milestone 33a.1 in September 2018.

The Closure Pack evidenced that CBA had taken preliminary steps to define the resourcing and technology needs required to execute the RAP.

Promontory's initial assessment of the Closure Pack identified material shortcomings in relation to satisfying the Closure Criteria and Target State.

In particular, the Closure Pack did not set out sufficient evidence regarding:

- A multi-year view of resourcing and technology needs for successful delivery of all APRA Recommendations;
- A sustainable, documented process for monitoring and assessing resourcing and technology needs and costs on an ongoing basis;
- The nature of the ELT's engagement and involvement in overseeing the multi-year view of resourcing and technology needs;
- The analysis conducted of skills and capabilities required at a BU/SU level; and
- The approach to determining technology costs and the funding implications of meeting those technology needs.

Promontory requested and received further information and interviewed relevant stakeholders about the items noted above over the course of several months.

To address the shortcomings identified in Promontory's assessment, CBA has developed and documented an ongoing process for forecasting and updating resourcing requirements to deliver the RAP across BU/SUs. This process was formally endorsed at the BROP Governance Forum in February 2019.

The resource forecasts developed through this process are subject to challenge and oversight by relevant committees, including:

- Monthly reporting to the BROP Governance Forum;
- Quarterly reporting to the ELT NFRC; and
- Reporting within the BU/SU, including BU/SU Governance forums and the BU NFRCs.

On 22 March 2019, the ELT NFRC endorsed the updated BROP resourcing forecast that had been produced through this process.

Funding for three BROP-related business cases which seek to deliver Group-wide RAP IT requirements was sought and obtained in November 2018, January 2019 and March 2019.

Promontory sought further details in relation to the business cases to satisfy ourselves that the business cases take into account funding requirements for the IT-related changes needed to deliver recommendations in the RAP.

CBA provided most of the evidence to support the developments described above toward the end of the Reporting Period; although we received minutes formally documenting the ELT's endorsement of one of the

business cases several days after the end of the Reporting Period³¹. Based on this evidence, Promontory has assessed the Milestone as complete and effective.

10.2.4. Assessment of Recommendation 33b Milestones

The Target State for Recommendation 33b is that sufficient resources are available to ensure that delivery of the RAP is prioritised.

a) Milestone 33b.1

Milestone 33b.1 (a Design Milestone) requires the development of a capacity prioritisation process that provides clear guidance to the BU/SUs in deciding the programs to be stopped or deferred in order to create capacity to deliver RAP initiatives.

CBA has developed Guiding Principles for capacity creation to assist BU/SUs in deciding which projects to stop or defer in order to ensure sufficient funding and capacity is available to prioritise RAP delivery. The ELT has endorsed the Guiding Principles.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about whether the associated documentation promotes a repeatable and sustainable prioritisation process.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has designed an appropriate capacity prioritisation process with suitable supporting Guiding Principles. The documentation of the process will continue to evolve.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

In finalising our assessment, we noted that the Embed Milestone for this Recommendation is not due until June 2020. As an interim measure, we will review the associated documentation to be provided to BU/SUs to support the October 2019 IPP process (including the capacity prioritisation process using the Guiding Principles).

b) Milestone 33b.2

Milestone 33b.2 (an Implement Milestone) requires Group Executives to stop or defer existing programs, as endorsed by ELT and based on the guidance designed in Milestone 33b.1, and reallocate funding and resources towards delivery of the RAP initiatives.

Group Executives (in consultation with risk and finance teams) have used the Guiding Principles developed under Milestone 33b.1 to assess their portfolios and decide which projects to stop or defer in order to prioritise RAP delivery. The ELT has discussed and endorsed these actions, with the funding capacity created to be allocated to RAP-related projects.

³¹ Promontory received written confirmation prior to the Reporting Date that the ELT had endorsed the funding for this Business Case.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about the risks associated with the projects stopped and the role of Line 2 in accepting those risks.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has taken appropriate steps to stop programs and reallocate funding and resources towards RAP delivery.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

10.2.5. Assessment of Recommendation 34 Milestone

The Target State for Recommendation 34 is that the updated GDF³² (including improvements in the quality of status reporting, quality of leadership and Steering Committee oversight) is being applied consistently. This includes having in place a structured, stage-gated approach to designing and executing initiatives subject to the GDF across the Group, enabling non-adherence to the GDF to be readily identified, with appropriate consequence management applied and having remuneration impacts linked to delivery outcomes.

a) Milestone 34.1

Milestone 34.1 (a Design Milestone) requires that CBA enhance the existing GDF to ensure it is fit for purpose for all Programs in the Group.

CBA has revised the GDF to require non-negotiable pre-requisites in support of Program delivery and criteria to be met prior to commencement of the next phase of a Program. CBA has also revised the GDF to include evidence of the right skills and capabilities, quality reporting, steering committee oversight, and consequence management.

After reviewing the Closure Pack for this Milestone, Promontory requested and received further information and interviewed relevant stakeholders about:

- Projects not adhering to the framework; and
- Examples of performance appraisals where the consequence management process has been applied.

Based on our assessment of the Milestone Closure Pack, the additional information we received and the interviews we conducted, we concluded that CBA has enhanced the existing GDF to ensure it is fit for purpose for all Programs in the Group.

As such, we consider the Milestone to provide a sound basis for achieving the Target State and that it is, therefore, complete and effective.

³² The GDF is a set of delivery approaches and minimum standards based designed to improve project delivery outcomes.



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