

NZX: SPY

ASX: SMP

Smartpay Governance Principles:

Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation

Risk Management

Directors will have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.

Reporting and Disclosure

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosure on Smartpay's affairs.

Useful links/further information:

Smartpay Risk Register
Smartpay Risk Management Policy

NZX Corporate Governance Code

ASX Corporate Governance Principles and Recommendations

FMA Corporate Governance in New Zealand Principles and Guidelines

KPMG Forensic, Advisory on Fraud Risk Management

Smartpay reserves the right to amend, update or withdraw its corporate policies without prior notice.

Policy Statement

Smartpay is committed to maintaining high standards of ethical behaviour throughout the organisation; it expects to earn the respect of its customers and shareholders through consistently applying the principles of integrity, transparency and honesty. It recognises that instances of corporate fraud and misconduct remain a threat to public trust and confidence and is committed to ensuring that it has the policies and processes in place to prevent, detect and respond to fraud and misconduct within its business.

Policy Purpose

The objectives of the policy and related procedures are to:

- **Prevent:** reduce the risk of fraud and misconduct occurring
- **Detect:** Discover fraud and misconduct when it occurs
- **Respond:** Take corrective action and remedy the harm caused by fraud or misconduct

Definitions

'Fraud': broad legal concept that generally refers to an intentional act committed to secure an unfair or unlawful gain.

'Misconduct': generally refers to violations of laws, regulations, internal policies and market expectations of ethical business conduct.

Responsibility

Board

The Board has the ultimate responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. The Board sets the policies on Risk Management and internal controls and seeks regular assurance that these policies are being implemented by the Senior Management Team.

Audit and Finance Committee

As per its terms of reference, responsible for:

- reviewing management's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management
- monitoring the integrity of the company's internal financial controls to review the statement in the annual report and accounts and/or corporate governance statement on the company's internal controls and risk management framework

Senior Management

The Senior Management team is responsible for creating and maintaining procedures to support Board policy on fraud risk management, for implementing suitable systems of internal control

Employees

All employees have individual responsibility to follow the procedures in place for the business and to conduct their work in line with the Code of Conduct.

Preventions

Risk assessment

The Risk Management Procedure structure has established a Risk Register; which is reviewed by the management team and includes the identification of risks and mitigating processes (see also Smartpay's Risk Management Policy). This includes the identification of operational risks including those around the underlying processes, systems and IT infrastructure which need to adequately support this business to ensure that fraud cannot be perpetuated.

External Audit

The business is audited annually in line with the requirements of its NZX and ASX Listings.

Staff Handbook

The Business has a Staff Handbook which is provided to employees when they join, is available on the google docs platform and is released to all staff if there is a change. It is reviewed as and when required to meet the needs of the business.

Code of Conduct

The staff handbook outlines the conduct expected of all staff.

Annual Leave

The business operates a compulsory shut down period over Christmas when the majority of staff are required to take a period of annual leave of more than 1 week. This acts as both a deterrent and a detection mechanism, fraud is being harder to conceal when it is necessary to have work covered by a colleague over a longer period of absence.

Disciplinary process

The Handbook identifies that 'Theft, unauthorised removal of company property, being unlawfully in possession of Company property or other forms of dishonesty....' is considered serious misconduct.

Employee Due Diligence

References are followed up for all new staff joining the business.

New employees are required to declare any previous criminal convictions and sign a declaration confirming they have done so, this forms part of their employment contract.

Communication and training

All employees are made aware of their obligations; the code of conduct they are expected to comply with, their delegated authority, required processes, individual kpis and how to make protected disclosures, much of which is covered during the induction process.

Internal Financial Controls

The management team has in place systems of internal financial controls which are set out in detail in its paper ' Effectiveness of Systems of Internal Financial Control'.

Detection

The Company's auditing and monitoring systems are designed to detect fraud and misconduct.

Whistle blowing/Protected Disclosures mechanisms

Policy contained in staff handbook and communicated to all.

Auditing and Monitoring

The business has no formal internal audit process, it has no history of fraud and misconduct, employee turnover is low, laws and regulations remain constant. Internal audits will however be conducted when specific concerns about a procedure account or position arises.

External audits are required by regulation; on a financial level over the Financial records; operationally the visa pin audits.

As identified in the system of internal financial controls auditing and checking occur in normal course of business (reconciliations, sign off processes etc.).

Forensic data analysis

KMPG service – data match of payment beneficiaries to identify issues will be utilised if specific concerns are identified.

Internally the CFO undertakes a match of employee bank account numbers contained in the payroll system with supplier bank account numbers to identify any miss-directed payments.

Response

In the event of an incident of fraud or misconduct is identified the following steps will be taken:

Internal investigation

This may take the form of an internal audit; and using the discretions set out in the Staff Handbook an employee under investigation may be asked to take paid absence from the office.

Enforcement and accountability protocols

The Company's Staff Handbook sets out the disciplinary procedure which will be used in all situations where fraud or misconduct has been detected and confirmed.

Remedial action

Where fraud of misconduct has been established the senior management team will undertake remedial action which will include:

- Steps to mitigate the loss identified
- Implementation of additional procedures to prevent the fraud or misconduct re-occurring

Reporting

Each department should establish and maintain risk documentation to monitor and report risks that threaten achievement of their key objectives; measures and targets should reflect their particular business and operating risks. Records and planning documentation should include information on risks associated with projects and initiatives.

Whilst risk management is an ongoing process which is incorporated into Smartpay's core operations the senior management team undertakes a formal review of the Risk Register prior to each scheduled Board meeting where it reviews each risk, its mitigating factors and risk rating.

Board meeting agendas include a Risk agenda item as a standard item, the full Risk Register and a summary of the review outcomes is provided in Board packs.

In any major transactions, mergers, acquisitions, large new contracts and projects the management of risk is a key factor and the Risk Register will be reviewed in light of any such corporate activities to ensure that the appropriate risk mitigation strategies are in place as the project develops.

Based on the information provided by management, the Company Secretary maintains a Risk Register which identifies and evaluates the key risks facing Smartpay Holdings Limited and its subsidiary companies which could have a material impact on the prospects of the group as a whole. The document also identifies the key mitigating factors and controls that reduce the likelihood and/or impact associated with these risks and, where appropriate highlights areas where additional controls need to be created.

The Internal Control Checklist and Questionnaire contained in management's paper 'Effectiveness of Systems of Internal Financial Control' is reviewed and completed on an annual basis by the management team and provided to the Audit and Finance Committee.

The Board is provided with detailed monthly management accounts which include identification and explanations of variances to budget; these are accompanied with Management Sign off statements.

As part of the half and full year reporting process senior managers are required to confirm that they are not aware of any fraud or misconduct in the business.

Policy authorised by the Board

7 November 2019



Matthew Turnbull
on behalf of the Board