



Attachment to Board Meeting Summary Paper

Subject: Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) - Key Issues for AUASB Consideration

Prepared by: AUASB Technical Group

Date: 23 March 2009

ATTACHMENT 1

A. Project Update

Since reporting to the AUASB at the February 2009 meeting:

1. The AUASB Technical Group engaged in further discussions with APRA to seek clarification regarding:
 - The prudential reporting requirements for foreign ADIs.
 - The definition of accounting records for the purpose of APS 310.
 - Interpretation of the term 'reliable'.
 - APRA's expectations in relation to the reporting of significant findings (long form reporting).
2. The ADI Project Advisory Group (PAG) met on 18 March 2009 to discuss the latest version of the proposed new Guidance Statement and to resolve outstanding issues.
3. Key issues discussed at this meeting, included the following:
 - (a) **Source of information included in APRA ADI Reporting forms**
 - Application of the definition of 'accounting records' is important. Only information sourced from accounting records is to be audited (reasonable assurance); information sourced from non-accounting records is to be subjected to review only (limited assurance).
 - The PAG discussed whether the proposed guidance material made it sufficiently clear that APRA's expectation is for most Reporting Forms (or data in forms) to be subjected to an audit.
 - Apart from the information sourced from internal risk models in the 'capital' Reporting Forms of Advanced ADIs, it will only be in very limited circumstances that data will be sourced from records other than accounting records. For

Standardised ADIs, most of the information included in Reporting Forms will be sourced from accounting records.

- Whether information is sourced from accounting records or not, is a matter for the exercise of an auditor's professional judgement, based on the application of the AUASB's definition of accounting records.
- The Group agreed that it will be helpful to include specific examples for Standardised ADIs of:
 - Information clearly sourced from non-accounting records.
 - Information 'indirectly' sourced from accounting records (for example, re-classified, segmented)

(b) **Materiality Guidance**

- The PAG considered draft materiality guidance prepared by the Working Group (to be included as an appendix to the Guidance Statement). This guidance was based on APRA's old Materiality Guidance Note '*Forms subject to audit and application of Materiality – ADIs*', and included detailed quantitative materiality thresholds for each Reporting Form required to be subjected to audit or review, as listed in Appendix A of APS 310.
- The PAG decided that this guidance was too detailed and prescriptive for inclusion in an AUASB Guidance Statement. The Group requested further consultation with APRA on the issue and that APRA be asked to reconsider its decision not to update and reissue its Materiality Guidance Note. The Group felt that this guidance was widely used by ADI auditors and that it would lead to greater consistency amongst firms in the level of assurance provided to APRA in relation to ADI Reporting forms.

(c) **Foreign ADI Branches**

- The revised APS 310 now requires a full scope audit of the *Statement of Financial Position* and *Statement of Financial Performance* ADI Reporting Forms, not previously required.
- As a foreign ADI branch is not required to prepare a financial report under the *Corporations Act 2001*, there is no requirements for a statutory financial report audit (and review) to be undertaken. Therefore, the accounting records and internal controls of a foreign ADI branch will not generally be subjected to a full external audit (or review), unless the branch is included in the scope of the foreign ADI group audit (where the audit arrangements will be driven by head office audit requirements).
- The appointed auditor of a foreign ADI branch can therefore not rely on any work performed as part of the statutory financial report audit. Therefore, the Guidance Statement needs to identify the additional matters to be taken into consideration by the appointed auditor of a foreign ADI branch.

B. Other Matters to consider in reviewing the proposed Guidance Statement:

In addition to the matters highlighted above, the AUASB is to consider the following matters in its review of the proposed new Guidance Statement:

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1. New shortened title for the Guidance Statement.
2. Format of Auditor's Annual Prudential Assurance Report (Appendix 3)
3. Paraphrasing of relevant sections from APS 310 (refer to paragraphs 2; 3; 30-34; 37; 39-45)

These sections could be replaced with references to APS 310 only. The PAG felt that inclusion of this information (where relevant) provided useful background information, thereby improving the readability of the document.

[Note, paragraph 14 of the Guidance Statement emphasises that the Guidance Statement does not replace the need for the appointed auditor of an ADI to refer to the applicable Prudential Requirements.]

C. Outstanding Matters in Guidance Statement

1. Materiality – further guidance to be developed in consultation with the PAG and APRA.
The nature and extent of such guidance will depend on whether APRA decides to update and reissue its Guidance Note on Materiality (refer item A.3.(b) above).
2. Evaluation of findings (including application of materiality) – further guidance.
3. Reporting of significant findings (long form reporting) and modifications to the auditor's assurance report – further guidance.
4. Special considerations when evaluating findings and reporting for Level 1 and Level 2, if reporting on both in one report.
5. Appendix 2 – Example Management Representation Letter
6. Appendix 4 – Example format for Reporting Additional Information to APRA (content and format)
7. APRA review of proposed Guidance Statement.
8. Technical and editorial QA of Guidance Statement.

D. Timeline for Finalising the Guidance Statement:

1. Update Guidance Statement in response to feedback received from APRA and the AUASB.
2. Finalise listed outstanding matters and further improve the Guidance Statement's content in consultation with the PAG and APRA (April – May 2009).
3. Schedule a final (4th) PAG meeting to consider and agree to the final draft of the proposed Guidance Statement (early May 2009) to be tabled at the 1-2 June AUASB meeting.
4. Technical and Editorial QA of the proposed Guidance Statement (May 2009).
5. Table the final draft of the proposed new Guidance Statement at the 1-2 June 2009 AUASB meeting for approval to issue.

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