

GS 017
(June 2010)

Guidance Statement GS 017
Prudential Reporting
Requirements for Auditors of
a Life Company

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the AUASB website:
www.auasb.gov.au

AUASB contact details:

Auditing and Assurance Standards Board
Level 7
600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2010 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne Victoria 8007. Otherwise, no part of the Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

CONTENTS

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application.....	1
Issuance Date	2-3
Introduction.....	4-20
Definitions	21
Responsibilities of the Life Company.....	22-26
Role and Responsibilities of the Auditor	27-29
Agreeing the Terms of the Annual Prudential Reporting Engagement.....	30-36
Planning the Annual Prudential Reporting Engagement.....	37-73
Matters to Consider in Conducting the Annual Prudential Reporting Engagement.....	74-111
Communication.....	112-119
The Auditor’s Annual Prudential Assurance Report.....	120-127
Additional Reporting Requirements under the Life Insurance Act.....	128-132
Special Purpose Engagements	133-143
Conformity with International Pronouncements.....	144

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

APPENDICES

Appendix 1: Example Special Purpose Reports:

Section A: Reasonable Assurance [APRA Annual Returns]

*Section B: Limited Assurance [on Controls to Ensure
Compliance with APRA Prudential
Requirements]*

Appendix 2: Example Attachment to the Auditor's Special
Purpose Report – Material Findings or Exceptions

PREFACE

How this Guidance Statement is to be used

This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the auditor of a life company, reporting in accordance with the prudential reporting requirements specified by APRA in its life company Prudential Standard LPS 310 *Audit and Related Matters* (LPS 310).

This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to:

- (a) LPS 310 and other applicable APRA Prudential Requirements and Reporting Standards, including the *Life Insurance Act 1995* (Life Act), the *Financial Sector (Collection of Data) Act 2001* (FSCODA);
- (b) applicable AUASB Standards; and
- (c) relevant ethical and professional standards.

This Guidance Statement does not extend the responsibilities of an auditor of a life company beyond those which are imposed by the Life Act, the FSCODA, APRA Prudential and Reporting Standards, AUASB Standards and other applicable legislation.

It is not the intention of this Guidance Statement to provide step-by-step guidance in relation to the conduct of a prudential reporting engagement and it is not to be used as a checklist of all issues to be considered by the auditor.

It is not intended that this Guidance Statement limits or replaces the auditor's professional judgement and initiative, or limits the application of relevant AUASB Standards. AUASB Standards contain the basic principles and essential procedures to be applied by the auditor when performing reasonable assurance (audit) and limited assurance (review) engagements. Audit and review programs for each engagement are to be designed to meet the circumstances of the particular engagement, giving careful consideration to the size and type of life company and the adequacy of its internal controls.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 017 *Prudential Reporting Requirements for Auditors of a Life Company* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new requirements.

Dated: 24 June 2010

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 017

Prudential Reporting Requirements for Auditors of a Life Company

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the auditor of a life company¹, reporting in accordance with the prudential reporting requirements specified by APRA in its life company Prudential Standard LPS 310 *Audit and Related Matters* (March 2010) (LPS 310).

Issuance Date

- 2 This Guidance Statement is issued on 24 June 2010 by the AUASB and replaces AGS 1024 *Life Insurance Act 1995 – Audit Obligations*, issued in December 2002.
- 3 This Guidance Statement is effective for assurance engagements undertaken in relation to reporting periods commencing on or after 1 July 2010.

Introduction

Prudential Supervision of a Life company

- 4 Under the *Life Insurance Act 1995* (Life Act), APRA is responsible for the prudential supervision and monitoring of prudential matters relating to all life companies, a specified class of life companies or one or more specified life companies in order to protect the interests of policy holders or prospective policy holders of the life companies concerned.
- 5 APRA formulates, promulgates and enforces prudential policy and practice through life company Prudential Standards (LPSs). In addition, APRA may also issue non-enforceable life company Prudential Practice Guides (LPGs) and other guidelines, to assist life

¹ The terms auditor and life company are defined in paragraph 21 of this Guidance Statement.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

companies in complying with the requirements in its Prudential Standards and, more generally, to outline prudent practices in relation to certain elements of a life company's operations.²

- 6 Under the Life Act a life company is required to appoint an auditor. LPS 310 provides eligibility criteria for auditors. The auditor of a life company has an important role to play in the prudential supervision process. Requirements for auditors of life companies to provide reports on prudential matters to APRA are intended to assist APRA in assessing the reliability of information supplied to it by a life company.
- 7 The use by life companies and APRA of assurance reports prepared by auditors needs to be evaluated in the context of the inherent limitations of an audit or review (refer paragraphs 107 – 111) and the subject matter of the audit or review (refer paragraphs 41 - 47 of this Guidance Statement).
- 8 LPS 310 warns that all persons involved in the provision of information (which includes the auditor) are to note that it is an offence under subsection 137.1 and 137.2 of the Criminal Code 1995 to provide, whether directly or indirectly, false or misleading documents or information to a Commonwealth entity (such as APRA).

Responsibilities of the Auditor

- 9 The responsibilities and reporting requirements of the auditor of a life company are contained in:
 - (a) applicable AUASB Standards;
 - (b) LPS 310;
 - (c) other applicable APRA Prudential Requirements³, including the *Life Insurance Act*, the *Financial Sector (Collection of Data) Act 2001* (FSCODA), and APRA Prudential and Reporting Standards; and
 - (d) relevant ethical and professional standards.

² Access to APRA Prudential Standards, Prudential Practice Guides and legislation relevant to Life company's is available on APRA's website (www.apra.gov.au).

³ See paragraph 21 of this Guidance Statement.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- 10 APRA places reliance on accounting and auditing standards to the extent that they do not conflict with Prudential Requirements applicable to life companies. LPS 310 requires auditors in meeting their role and responsibilities, to comply with the Australian Auditing Standards and consider Guidance Statements issued by the AUASB, except where:
- (a) they are inconsistent with the requirements of LPS 310, in which case LPS 310 prevails; or
 - (b) APRA otherwise specifies, in writing, to the life company that alternative standards and guidance are to be used by the auditor.

In the case of an eligible foreign life insurance company (EFLIC), APRA requires compliance with Australian Accounting Standards in the completion of APRA annual returns under LPS 310.

- 11 The following AUASB Standards are applicable to the engagement:
- (a) Auditing Standards - where reasonable assurance on financial information is required; and
 - (b) Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) – where limited assurance is required in relation to information other than historical financial information and in relation to internal controls.

ASAE 3000 has been written for general application to assurance engagements other than audits or reviews of historical financial information covered by Auditing Standards or Standards on Review Engagements. Where topic-specific ASAEs exist, for example ASAE 3100 *Compliance Engagements*, the auditor applies the relevant topic-specific ASAEs, as well as ASAE 3000.

- 12 The auditor accepts the prudential reporting engagement only when the auditor is satisfied that the auditor and the engagement team if applicable, have met the relevant ethical requirements relating to the assurance engagement.
- 13 The concept of independence is important to the auditor's compliance with the fundamental ethical principles of integrity and

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

objectivity. The auditor is required to meet the independence requirements set out in:

- (a) APRA's life company Prudential Standard LPS 510 *Governance* (LPS 510); and
- (b) *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102).

Tripartite Relationship

- 14 Under normal circumstances, APRA does not consult directly with an auditor of a life company on matters concerning an individual life company. APRA's liaison with an auditor of a life company is normally conducted under tripartite arrangements involving APRA, the life company and its auditor(s) (see LPS 310).
- 15 Any one of the parties involved in the tripartite relationship may initiate meetings or discussions at any time, when considered necessary.
- 16 Notwithstanding the tripartite relationship, APRA and the auditor may meet, at any time, on a bilateral basis at the request of either party. APRA may communicate with an auditor of a life company on a bilateral basis to obtain or discuss information for whatever reason(s) it considers appropriate.
- 17 Under LPS 510, a life company is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors (or other parties) from communicating with APRA.

Scope of LPS 310 Prudential Reporting Engagements

- 18 LPS 310 provides for two types of engagements to be conducted by the auditor of a life company, namely:
 - (a) annual prudential reporting engagements (see paragraphs 30-127); and
 - (b) special purpose engagements (see paragraphs 133-143).
- 19 The audit [and review] of financial reports required under the *Corporations Act 2001* (the Act) (where required) is directed

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

towards obtaining sufficient appropriate evidence to form an opinion [or conclusion] on whether the financial report is presented fairly in accordance with the required financial reporting framework. The financial report audit [and review] is not designed to enable the auditor to conclude in relation to the matters specified in LPS 310.

- 20 The LPS 310 prudential reporting requirements, imposed on the auditor via the terms of engagement with a life company, are in addition to the audit [and review] of financial reports required under the Act.

Definitions

- 21 For the purpose of this Guidance Statement, the following terms have the meanings attributed below:
- (a) Assurance engagement means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
 - (b) Assurance engagement risk means the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.
 - (c) Auditor means an independent auditor(s) appointed by a life company to meet the prudential reporting requirements under LPS 310.

Under LPS 310 it is possible for a life company to have more than one auditor at any time, and for an auditor appointed under LPS 310 to be different from the auditor responsible for undertaking the financial report audit [and review] under the Act if agreed to by APRA and the auditor satisfies the criteria under LPS 310.

Where the Life Act refers to ‘the auditor’ of a life company, this may be an ‘auditor’ (under LPS 310) or another auditor, such as the auditor responsible for the audit [and review] of financial reports required under the Act.

- (d) Internal control encompasses the following components:

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (i) the control environment;
- (ii) the life company's risk assessment process;
- (iii) information systems, including the related business processes, relevant to financial and prudential reporting, and communication;
- (iv) control activities; and
- (v) monitoring of controls.

The way in which internal control is designed and implemented varies depending on the life company's size and complexity.

- (e) Life company means all life companies (including friendly societies) registered under section 21 of the *Life Insurance Act 1995*.
- (f) Life company auditable annual return(s), means a form used for the collection and reporting of information in relation to a life company, as required to be provided to APRA by a life company in accordance with APRA Reporting Standards made under the FSCODA.
- (g) Limited assurance engagement means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion. A limited assurance engagement is commonly referred to as a review.
- (h) Prudential Requirements⁴, are outlined in LPS 310 and include requirements imposed by:
 - (i) the *Life Insurance Act 1995*;
 - (ii) Regulations (made under the *Life Insurance Act 1995*);

⁴ These requirements may differ between locally incorporated and foreign life companies.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (iii) APRA Prudential Standards (made under the *Life Insurance Act 1995*);
 - (iv) APRA Prudential Rules (made under the *Life Insurance Act 1995*);
 - (v) the FSCODA;
 - (vi) APRA Reporting Standards (made under the FSCODA);
 - (vii) APRA conditions on the registration of a life company; and
 - (viii) any other requirements imposed by APRA, in writing, in relation to the life company.
- (i) Reasonable assurance engagement means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a positive form of expression of the assurance practitioner's conclusion. A reasonable assurance engagement is commonly referred to as an audit.
 - (j) Reliability under the Australian Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements* means information has the quality of reliability "... when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably expected to represent".

Responsibilities of the Life Company

- 22 It is the responsibility of a life company's Board and management to ensure that the life company meets prudential and statutory requirements and has management practices in place to limit risks to prudent levels (refer LPS 510).
- 23 Under the Life Act a life company is required to appoint an auditor(s) to meet the prudential reporting requirements under

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

LPS 310. LPS 310 sets out the eligibility criteria for the appointment of an auditor.⁵

- 24 The life company is required to ensure that its auditor(s):
- (i) has access to all relevant data, information, reports and staff of the life company, which the auditor reasonably believes is necessary to fulfil their role and responsibilities under LPS 310. This includes, access to the life company's Board⁶, Board Audit Committee and internal auditors as required;
 - (ii) is kept fully informed of all APRA prudential requirements applicable to the life company; and
 - (iii) is provided with any other information that APRA has provided to the life company that may assist the auditor in fulfilling their role and responsibilities under LPS 310.
- 25 A life company must ensure that the following are provided to its Board or Board Audit Committee (if not already sighted by one of them):
- (i) reports, provided by the auditor in accordance with LPS 310, and any associated assessments and other material prepared in connection with fulfilling the requirements of LPS 310;
 - (ii) commentary or responses provided by APRA to the life company on reports provided by the auditor, and any associated assessments and other material; and
 - (iii) any commentary or response on the reports, associated assessments and other material provided by the auditor that is given by the life company to APRA.
- 26 A life company, if requested by APRA, must within a reasonable time provide APRA with the terms of engagement and other instructions or correspondence, including management letters, that may have a bearing on the:

⁵ See LPS 310, paragraph 5.

⁶ In the case of an eligible foreign life insurance company (EFLIC), the Compliance Committee.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (i) scope or conduct of the work undertaken by the auditor in accordance with LPS 310; and
- (ii) form, content (including findings made or opinions expressed by the auditor) or coverage of the reports provided in accordance with LPS 310.

Role and Responsibilities of the Auditor

27 LPS 310 requires the auditor of a life company to report to the Board within four months of the end of the financial year of the life company, in relation to the following matters:

- (a) *Reasonable Assurance on Life company annual returns*⁷:

LPS 310 requires the auditor to prepare a report that provides reasonable assurance that, in all material respects the:

- (i) annual returns are reliable and in accordance with the relevant prudential requirements, and
- (ii) prudential requirements in relation to the accounting for statutory funds have been met.

The requirements in (i) above are largely met by work performed by the auditor and the engagement team as part of the financial report audit required under the Act.

- (b) *Limited Assurance on Systems, Procedures and Internal Controls that are designed to ensure Compliance with Prudential Requirements and the Reliability of Data included in the Life company annual returns*

LPS 310 requires the auditor to prepare a report that provides limited assurance that, based on the review which is not an audit, in all material respects, nothing has come to the attention of the auditor that:

- (i) the life company has not implemented systems, procedures and internal controls that are designed to ensure the life company has:

⁷ For a listing of life company annual returns to be subjected to audit refer to APRA Prudential Standard LPS 310 Attachment A – Auditable annual returns.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- a. complied with all applicable prudential requirements; and
 - b. provided reliable data to APRA in the life company auditable annual returns prepared under the FSCODA; and
- (ii) the controls in paragraph 27(b)(i) have not operated effectively throughout the financial year; and
- (iii) the life company's systems, procedures and internal controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing the annual returns under FSCODA) are not adequate and effective.

Refer to paragraphs 120-123 for further guidance on the auditor's opinion/conclusions.

- 28 The Life Act specifies in section 88 the circumstances where the auditor is required to report to APRA in the instance where a life company or its directors may have contravened the Life Act or any other law and the contravention may significantly prejudice the interests of the holders of policies issued by the life company.

When a report is made to APRA, the auditor should not disclose this to the life company if the auditor:

- (a) has lost confidence in or mistrusts the Board or senior management of the life company; or
 - (b) the auditor considers that by doing so the interests of policy holders may be jeopardised.
- 29 In accordance with LPS 310, an auditor, whether as part of the annual prudential reporting or special purpose engagements, must not place sole reliance on work performed by APRA.

Agreeing the Terms of the Annual Prudential Reporting Engagement

- 30 The requirement to report in accordance with APRA's annual prudential reporting requirements, is in addition to the audit [and

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

- review] of financial reports required under the Act, and is to be treated by the auditor as a separate audit engagement.
- 31 The auditor and the life company agree on the terms of the engagement in accordance with the requirements of Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* (ASA 210) and ASAE 3000. These arrangements have to be legally binding and include the required terms of engagement specified in LPS 310.
- 32 An engagement letter (or other suitable form) confirms both the client's and the auditor's understanding of the terms of the engagement and the auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
- 33 For recurring engagements, the auditor considers whether circumstances require the terms of the engagement to be revised and whether there is a need to re-confirm in writing the existing terms of the engagement. While the auditor may decide not to re-confirm the terms of engagement each year, factors that may make it appropriate to do so include a recent change of senior management or those charged with governance, or any indication that the life company misunderstands the objectives and scope of LPS 310 prudential reporting engagements.
- 34 Ordinarily, matters that are contained in the engagement letter include the following:
- The objectives and scope of the annual prudential reporting engagement pursuant to LPS 310.
 - The responsibilities of management and, where appropriate, those charged with governance, for the subject matter of the report.
 - The role and responsibilities of the auditor in accordance with the requirements of LPS 310.
 - Acknowledgement that the auditor, in meeting their role and responsibilities, will comply with the requirements of applicable AUASB Standards and will consider relevant Guidance Statements issued by the AUASB, except where inconsistent with the requirements of LPS 310 or where

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

APRA specifies alternative standards and guidance to be used.

- Identification of the relevant AUASB Standards under which the engagement will be conducted and inclusion of a statement that, although it does not prescribe or create new mandatory requirements, the auditor will consider the guidance contained in this Guidance Statement.
- Agreement from management and, where appropriate, those charged with governance, to provide unrestricted access to whatever records, documentation and other information requested in connection with the prudential reporting engagement.
- Agreement from management and, where appropriate, those charged with governance, to provide written representations requested by the auditor.
- Any limitations on the engagement (see paragraphs 107-111).
- The agreed use of the assurance report(s) issued by the auditor, and the extent to which, and the basis on which, the assurance reports may be made available to others (refer paragraphs 120-123).
- The auditor's additional responsibilities to report to APRA under sections 80(3), 88 and 88A of the Life Act and section 89 which provides for protection in relation to the disclosure of such information.
- Confirmation that the auditor will meet the independence requirements under LPS 510 and ASA 102.
- The form of reporting and communication in relation to the engagement.

35 The engagement letter explains that any special purpose engagement of any aspect of the life company's operations, risk management or financial affairs, will constitute a separate engagement(s) and that the details of such engagement(s) will be the subject of a separate engagement letter(s).

- 36 The engagement letter furthermore clarifies that, in accordance with LPS 310 and LPS 510, the auditor is not to be a party to any contractual arrangements, or any understandings with a life company, that seek in any way to limit the auditor's ability or willingness to communicate to APRA. The auditor notifies APRA of any attempts by a life company to achieve such arrangements or understandings. APRA may liaise bilaterally with an auditor and may although not usually, request information directly from the auditor.

Planning the Annual Prudential Reporting Engagement

- 37 The nature and extent of planning activities will vary with the engagement circumstances. Specific matters that may be considered by the auditor as part of the planning process include:
- The auditor's understanding of the life company and its environment, including its internal control and compliance framework (see paragraphs 38-40).
 - The auditor's previous experience with the life company.
 - The characteristics of the subject matter and the identified assessment criteria (see paragraphs 41-47).
 - The internal controls relating to actuarial data integrity and financial reporting risks and the reliability and accuracy of the underlying source data.
 - The intended users of the auditor's assurance report and their needs (see paragraphs 48-49).
 - Materiality (see paragraphs 50-64).
 - Assurance engagement risk.
 - The appropriate assurance strategy to adopt for each part of the engagement and possible sources of evidence.
 - Personnel and expertise requirements, including the nature and extent of experts' involvement (see paragraphs 65-69).
 - Work to be performed by another auditor (see paragraph 70).

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- The activities of the internal audit function and the effect on audit and review procedures (see paragraphs 71-73).
- The auditor's additional reporting responsibilities under the Life Act (see paragraphs 130-134).

Further guidance on planning an audit may be found in ASAE 3000 and ASA 300 *Planning an Audit of a Financial report* (ASA 300).

The Auditor's Understanding of the Life Company and its Environment, including its Internal Control and Compliance Framework

- 38 The auditor obtains an understanding of the life company and its environment, including its internal control and compliance framework, and other assurance engagement circumstances, sufficient to:
- (a) identify and assess the risks of the subject matter information being materially misstated, that significant deficiencies in internal controls may exist (in relation to the area of activity to be examined), and/or that the life company may not be complying with applicable prudential requirements; and
 - (b) design and perform further evidence-gathering procedures.
- 39 The auditor exercises professional judgement to determine the nature and extent of the understanding that is needed. When performing procedures to obtain an understanding of the life company and its environment, consideration of the following matters may be helpful:
- The size, nature and complexity of the life company and its activities.
 - Any changes in the market environment.
 - Governance and management functions within the life company, including the attitude, awareness and actions of those charged with governance and of management concerning the life company's compliance with Prudential Requirements, and the respective roles and responsibilities attributed to the finance, risk management, compliance and internal audit functions.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- Relevant aspects of the life company's risk management framework and systems applicable to the engagement, including the life company's risk assessment process for identifying risks relevant to prudential reporting objectives and deciding on actions to address those risks through its risk management systems.
 - The life company's internal control relevant to the assurance engagement.
 - The life company's compliance framework, processes and controls (refer to ASAE 3100).
 - The significance and complexity of the life company's information technology environment and systems.
 - Any formal communications between APRA and the life company, and the results of any supervisory visits conducted by APRA in relation to the engagement.
 - Recent reports prepared by other assurance practitioners appointed to report on any aspect of the life company.
 - Work performed by the internal audit, risk management and compliance functions, for example key findings, control deficiencies, compliance register or incident reporting, and any reliance that may be placed on this work.
 - Discussions with life company staff responsible for monitoring regulatory compliance, such as the life company's compliance officer or chief risk officer.
- 40 In addition to the general planning considerations, the auditor takes the following factors into account when planning the review of the life company's internal controls relevant to the assurance engagement:
- The overall compliance framework adopted by the life company to ensure compliance with all applicable prudential requirements, including its controls, policies and processes, and consideration of whether or not these are appropriate given the size, nature and complexity of the life company.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- The sufficiency and appropriateness of the life company's risk management strategy, including systems, policies and controls adopted in accordance with specific prudential standards, and consideration of whether these are up to date and in sufficient detail to facilitate compliance with the relevant prudential standards.
- Matters relating to the life company's organisational structure and operating characteristics, and recent significant changes thereto, which could impact on the life company's internal controls.
- Knowledge of the life company's internal controls obtained during other assurance engagements conducted in relation to the life company.
- Previously communicated instances of material non-compliance with prudential requirements and/or material deficiencies in internal controls designed to ensure compliance with all applicable prudential requirements and the provision of reliable data to APRA in annual returns that have and have not been resolved by the life company.
- In relation to actuarial data integrity and financial reporting risks the auditor may consider some of the following:
 - ◆ Sufficiency of expert resources within the life company e.g. actuarial or financial analysis and modelling;
 - ◆ Level/frequency of internal/external review of actuarial forecasting systems, models and associated controls;
 - ◆ Complexity of the underlying IT systems and general IT controls including:
 - storage and protection of data;
 - number of source systems;
 - system interfaces;
 - data transfer processes;

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- updating of actuarial data/key fields in the source systems; and
- end user computing controls in relation to spreadsheets or other business owned applications e.g. version control, integrity, password control and logic tests.

The above is not meant to represent an exhaustive list and there may be other factors relevant to the specific circumstances of a life company.

The Characteristics of the Subject Matter and the Identified Assessment Criteria

- 41 The auditor identifies the most recent year-end life company annual returns submitted to APRA for audit and/or review.
- 42 The auditor identifies, and obtains an understanding of, all the prudential requirements (refer to definition under paragraph 21) applicable to the specific life company (including any additional guidance provided by APRA to the life company), with particular attention to changes in these requirements during the reporting period. The auditor makes enquiries with respect to any requirements that are imposed in writing by APRA on a bilateral APRA- life company basis, or in relation to conditions on the life company's authorisation, as these requirements may vary from one life company to another.
- 43 Compliance with prudential requirements (see paragraphs 27(a) and 27(b) of this Guidance Statement) is broader than compliance with only the quantitative limits in APRA Prudential Standards (for example, capital adequacy requirements). The auditor is required to provide reasonable assurance in relation to the preparation of the annual return(s) in accordance with the Life Act, the *FSCODA Act 2001* and the applicable APRA reporting standards (Refer Auditor's Opinion in Appendix 1 Part A).
- 44 In relation to a life company's responsibility to keep the auditor informed of all APRA prudential requirements applicable to the life company, the auditor obtains written representations from those responsible (see paragraphs 106-107).
- 45 APRA Prudential and Reporting Standards provide the frame of reference (criteria) for reasonably consistent evaluation or

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

measurement, within the context of the auditor's professional judgement, of the reliability of the information included in life company annual returns.

- 46 The auditor identifies and obtains an understanding of the applicable prudential requirements that govern the preparation of data within life company annual returns, with particular attention to changes in these requirements during the reporting period under review. In addition to the Prudential and Reporting Standards issued by APRA, other Prudential Requirements, including the life company *Reporting Form Instruction Guides*, will also have an impact on the provision of reliable data to APRA under the FSCODA and, therefore, the auditor has regard to all relevant Prudential Requirements when planning and conducting the engagement.
- 47 It is important that the auditor obtains an understanding of how APRA Prudential Standards and APRA Reporting Standards differ from the financial reporting framework (Australian Accounting Standards) which determines data recorded in the life company's accounting records.

The Intended Users of the Auditor's Assurance Report and Their Needs

- 48 Data collected in a life company annual return(s) is primarily used by APRA to ensure that:
- (a) the regulated entity has met requirements of all prudential standards;
 - (b) statutory and regulatory requirements are met;
 - (c) statistical and financial data provided to APRA is reliable; and
 - (d) other matters that could materially prejudice/adversely affect the interests of policyholders are concluded upon.
- 49 APRA has the power under subsection 56(5) of the *Australian Prudential Regulation Authority Act 1998* to make 'protected information' (which may include auditors' reports or information extracted from such reports) available to another financial sector supervisory agency (for example, the Reserve Bank of Australia (RBA), the Australian Bureau of Statistics (ABS) and the Australian Securities and Investments Commission (ASIC)), or any other 'specified' agency (including foreign agencies), when APRA is

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

satisfied such information will assist those agencies in performing their functions or exercising their powers.

Materiality

- 50 The auditor considers materiality when:
- (a) determining the nature, timing and extent of audit and review procedures;
 - (b) evaluating the effect of uncorrected misstatements identified in life company annual returns;
 - (c) evaluating the effect of identified deficiencies in internal controls designed to ensure:
 - (i) compliance with Prudential Requirements; and
 - (ii) reliable data is provided in the life company annual returns; and
 - (iii) integrity of actuarial data;
 - (d) assessing the significance of identified instances of non-compliance with relevant Prudential Requirements.
- 51 Determining materiality involves the exercise of professional judgement. Judgements about materiality are made in light of relevant circumstances, and are affected by quantitative and qualitative factors as well as consideration of the potential impact of misstatements, control deficiencies and/or instances of non-compliance that are individually immaterial but in the aggregate may be of concern.
- 52 Since the concept of materiality is applied differently in the context of an audit or review of financial and other information, a review of internal controls, and for the purpose of reporting on a life company's compliance with Prudential Requirements, it is considered separately below in paragraphs 61 to 63.
- 53 Although there is a greater risk that misstatements, control deficiencies or instances of non-compliance may not be detected in a review than in an audit, the judgement as to what is material is made by reference to the subject matter on which the auditor is reporting

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

and the needs of those relying on that information, as opposed to the level of assurance provided.

Audit of Life Company Annual returns

- 54 The principles of assessing materiality for the purpose of expressing a positive assurance opinion on a life company's annual returns (an audit), will generally be similar to that applying to the audit of a financial report.
- 55 For the purposes of the audit of life company annual returns the auditor considers materiality, as appropriate, under Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit* (ASA 320). In the absence of specific requirements issued by APRA, the Australian Accounting Standards Board's Accounting Standard AASB 1031 *Materiality* may provide a useful frame of reference to the auditor in determining materiality for the engagement.
- 56 Misstatements in the life company annual returns, either individually or in aggregate with other misstatements, are considered material if the auditor believes the intended users (refer paragraphs 48-49) may be influenced by the misstatement(s) of the information.
- 57 ASA 320 and AASB 1031 deal with materiality in the context of the financial statements taken as a whole. For the purpose of reporting on the reliability of information included in specified life company annual returns, the auditor considers and applies materiality at the level of individual annual returns, or data items, as appropriate.
- 58 In applying ASA 320 and ASAE 3000, as appropriate, to individual annual returns, the auditor has regard to the nature, purpose and use of the information included in each annual return. The collection and analysis of data in specified annual returns is a critical component of APRA's supervisory function. APRA collects data from life companies and friendly societies (and other APRA-regulated entities) in order to:
- (a) verify compliance with prudential requirements (e.g. solvency and capital requirements);
 - (b) understand the operations of the company and the industry;
 - (c) identify emerging issues in both the company and the industry;

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (d) pass on data to other government agencies; and
 - (e) provide information on the finance sector to research organisations and the general public.
- 59 The auditor's preliminary assessment of materiality is based largely on quantitative factors. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. The base and percentage may vary depending upon the life company annual return in question.
- 60 The auditor also needs to have regard to alternative bases such as profit, revenue or assets when considering whether a misstatement within a life company's annual returns such as the *Statement of Financial Performance, Statement of Financial Position, Summary of Revenue and Expenses and Retained Profits*, is material.

Review of Internal Controls

- 61 In accordance with ASAE 3000, when reviewing internal controls, the auditor assesses materiality in the context of the life company's objectives relevant to the particular area of activity being examined, and whether the internal controls will reduce to an acceptably low level, the risks that may jeopardise the achievement of control objectives – in this case compliance with prudential requirements and integrity of actuarial data.
- 62 In assessing materiality, the auditor has regard to the measures the life company has adopted to ensure:
- (a) reliable data is provided to APRA in all of the life company's annual returns prepared under the FSCODA;
 - (b) compliance with all applicable Prudential Requirements; and
 - (c) integrity of actuarial data.
- 63 ASAE 3100 sets out the requirements and provides guidance to the auditor in applying materiality in the context of a compliance engagement.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

Reporting on Compliance with Prudential Requirements and Actuarial Data Integrity

- 64 LPS 310 requires the auditor to provide limited assurance that the life company has complied, in all material respects, with all applicable Prudential Requirements (see paragraph 27(b) of this Guidance Statement). This conclusion is to be based on the auditor's audit and reviews undertaken to provide assurance in relation to the life company's annual returns (see paragraph 27(a)) and internal controls (see paragraph 27(b)).

The auditor considers materiality when evaluating the significance of identified instances of non-compliance with relevant Prudential Requirements (refer to paragraphs 89-95).

For further guidance in relation to the controls relating to actuarial data integrity and appropriate audit evidence (refer to paragraphs 87–88) and the evaluation of findings by the auditor (refer to paragraphs 96-99).

Personnel and Expertise Requirements, Including the Nature and Extent of Experts' Involvement

- 65 An auditor gives further consideration as to whether the auditor has, or will be able to obtain, adequate knowledge and the required skills to undertake the engagement.
- 66 LPS 310 prohibits an auditor from placing sole reliance on the work performed by APRA. As required by professional ethical requirements, auditors exercise their professional judgement and reach their own conclusions when undertaking any assurance engagement.
- 67 The nature and complexity of the life company determines whether the auditor may need to involve experts in the engagement. When conducting this type of engagement there are a number of considerations that need to be addressed by the auditor in relation to the use of, for example, an actuarial expert:
- whether there is an expert appointed by management or those charged with governance (internal expert) under the requirements outlined in LPS 320 *Actuarial and Related Matters* (LPS 320);

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- whether there is a requirement for an auditor's expert (external expert) in which case ASA 620 *Using the Work of an Auditor's Expert*(ASA 620) and ASAE 3000⁸ will need to be considered; and
- where the engagement team includes actuarial experts.

Under the Life Act, a life company must appoint an appointed actuary. One of the key requirements to be met by the appointed actuary is to complete a financial condition report on the company or in the case of a friendly society investigate the financial condition of the society. As outlined in LPS 320, this is the minimum requirement for a life company or a friendly society.

- 68 The complexity and nature of the life company may warrant the use of both a management's expert and an auditor's expert on the same engagement. Generally this is the case for the larger more complex life companies, however, in the case of a friendly society the management expert may be able to provide the auditor with sufficient appropriate audit/review evidence.
- 69 The life company auditor will also need to liaise with the life company appointed actuary with regard to the requirements of s80(2) of the Life Act in order for the auditor to obtain assurance that the income and outgoings apportionments have been made equitably and in accordance with generally accepted accounting principles (refer to paragraph 129).

Work Performed by Another Auditor

- 70 Where the auditor plans to use the work of another independent auditor, the auditor:
- for the audit of financial information, complies with the requirements of Auditing Standard ASA 600 *Special Considerations-Audits of a group Financial Report (Including the Work of Component Auditors)* (ASA 600); and
 - for other assurance, has regard to the principles of ASA 600 and ASAE 3000.

⁸ Further guidance on this area is available in GS 005 *Using the Work of an Actuary*.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

The Activities of the Internal Audit Function and the Effect on Audit and Review Procedures

- 71 LPS 510 requires all life companies (including an eligible foreign life insurance companies (EFLICs)), to have in place independent and adequately resourced internal audit function.⁹
- 72 LPS 510 requires that the objectives of the internal audit function include an evaluation of the adequacy and effectiveness of the financial and risk management framework of the life company.
- 73 In considering the activities of the internal audit function and evaluating the effect, if any, on audit and review procedures, the auditor:
- for the audit of financial information, complies with the requirements of Auditing Standard ASA 610 *Using the Work of Internal Auditors* (ASA 610); and
 - for other assurance, has regard to the principles of ASA 610 and ASAE 3000.

Matters to Consider in Conducting the Annual Prudential Reporting Engagement

Audit of Annual returns to APRA

Audit Objective

- 74 The auditor is required to prepare a report that provides reasonable assurance on the life company's annual returns to APRA, as specified in attachment A to LPS 310. In particular, the report must specify whether in all material respects, the auditor concludes the:
- (a) annual returns are reliable in accordance with relevant prudential requirements; and
 - (b) prudential requirements in relation to the accounting for statutory funds have been met.

The report to the life company is addressed to the board of the life company.

⁹ Under LPS 510, APRA may approve alternative arrangements where APRA is satisfied that it will achieve the same objectives.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

Review of Internal Controls over Compliance with Prudential Requirements and Reliability of Life company's Annual returns

Review Objective

- 75 Under LPS 310 the auditor is required to express a conclusion, based on a review, as to whether anything has come to the attention of the auditor to cause the auditor to believe that, in all material respects:
- (a) The life company has not implemented internal controls that are designed to ensure the life company has:
 - (i) complied with all applicable Prudential Requirements; and
 - (ii) provided reliable data to APRA in the life company's annual returns prepared under the FSCODA.
 - (b) The controls in paragraph 75(a) have not operated effectively throughout the financial year.
 - (c) The life company's systems, procedures and internal controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing the Annual returns under FSCODA) are not adequate and effective.

AUASB Standards

- 76 The auditor conducts the review of internal controls in accordance with ASAE 3000 and other relevant topic specific ASAEs, for example, ASAE 3100 *Compliance Engagements*.

Gathering Assurance Evidence

- 77 The evaluation of whether the life company has implemented internal controls that are designed to achieve the relevant control objectives as set out in paragraph 75 above, is performed in the context of the auditor's general understanding of the life company and its environment, the life company's risk management practices, and its internal control and compliance framework, as obtained for the purpose of planning the engagement. This review is based on whether the life company has implemented internal controls that

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

have been suitably designed to reduce to an acceptably low level, the risks that threaten achievement of the relevant control objectives.

- 78 The auditor generally adopts a ‘top down’ approach in gathering evidence, by making enquiries of key personnel, observing the life company’s operations, performing ‘walk-through’ tests of controls, and inspecting relevant documentation, as appropriate, in order to achieve the following:
- Obtaining an understanding of the life company’s overall control environment and compliance framework.
 - Identifying the internal compliance function(s) designed to ensure compliance with all applicable Prudential Requirements.
 - Identifying policies, procedures and controls designed to ensure compliance with all applicable Prudential Requirements, by reviewing documents such as the life company’s Risk Management Framework, Risk Management Strategy and similar risk management policy documents issued by the life company in accordance with applicable prudential standards.
 - Identifying the processes used by the Board of the life company to support its Risk Management Declaration to APRA as outlined in LPS 220 *Risk Management* (LPS 220).
 - Identifying key Board and operational matters by reviewing the minutes of the life company’s Board, as well as minutes of any sub committees responsible, for example, for oversight of compliance and audit, held during the year and enquiring about matters discussed and outcomes from Board decisions.
 - Identifying the internal compliance functions designed to oversee the provision of data to APRA in life company annual returns.
 - Identifying significant processes for the preparation of life company annual returns.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- Identifying the key controls over these significant processes that are designed to ensure that reliable data is provided to APRA in life company annual returns.

The above is not an exhaustive list, nor is it intended to direct the auditor as to the conclusion over the life company's internal controls.

- 79 Life companies have different systems and procedures in place to monitor compliance with specific Prudential Standards. Projections and estimates are likely to be part of the monitoring process, as the preparation of a full financial report is unlikely to be practical on a day-by-day or week-by-week basis. Varying degrees of precision may exist therefore in applying the monitoring process. Notwithstanding these differences, such systems seek to ensure that life companies comply with all Prudential Standards on a continuous basis.
- 80 The way in which internal control is designed and implemented varies with a life company's size and complexity. Smaller life companies may use less formal means and simpler processes to achieve their control objectives.
- 81 The auditor gathers evidence in response to assessed risks with a focus on identifying key controls within the control systems design. The auditor exercises professional judgement in determining the specific nature, timing and extent of review procedures to achieve the review objective.
- 82 Following the evaluation of whether the life company has internal controls designed to achieve the relevant control objectives, the auditor performs review procedures to obtain evidence about whether these controls have operated as designed throughout the financial year. The auditor may consider how the controls were applied, the consistency with which they were applied, by whom they were applied and the period of time over which the controls were applied.
- 83 The review of operating effectiveness may include procedures such as:
- Enquiry of appropriate life company personnel (and obtaining written representations).
 - Observation of the control process.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- Ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively.
 - Review of relevant documentation.
 - ‘Walk-through’ tests; and
 - Limited re-performance of the controls.
- 84 Interpretation of the word ‘reliable’ in the context of the review of controls over life company annual returns has practical limitations in some circumstances. For many life companies, it is only at the financial year-end (or for life companies that are disclosing entities, also at the half year-end) that all the necessary accounting adjustments, such as accruals, prepayments, provisioning and valuations, are prepared and subjected to audit or review. APRA accepts this position that annual returns prepared throughout the year are based on the life company’s normal accounting process.
- 85 The auditor enquires whether there were any changes in internal control, or other matters, subsequent to the financial year-end date and up to the date of the auditor’s assurance report, that may have an impact on the auditor’s conclusion about the effectiveness of internal controls, and obtains written representations from management relating to such matters.
- 86 Materiality is to be considered as outlined in paragraphs 50-63 of this Guidance Statement.

Adequacy and Effectiveness of Controls Relating to Actuarial Data Integrity and Financial Reporting Risks

- 87 The auditor under LPS 310 is required to express a conclusion as to whether anything has come to the auditor’s attention that causes the auditor to believe that the company’s systems, procedures and controls relating to actuarial data integrity and financial reporting risks¹⁰ are not adequate and effective to address the risk of material error in the APRA returns. Refer *Part B* of the Special Purpose Report as per Appendix 1.
- 88 The auditor reviews whether systems, procedures and controls in place are adequate and operating effectively to ensure that source

¹⁰ That is, the risks that incorrect source data will be used in completing returns to APRA in accordance with the requirements of the *Collection of Data Act*.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

data used for actuarial valuations and completion of returns to APRA in accordance with the requirements of the *Collection of Data Act*, is accurate and complete, consistent with the accounting records of the life company, and a true representation of the transactions for the year and the financial position of the life company. The auditor performs review procedures covering the period to obtain evidence regarding the continuity of systems, procedures and controls in place for the period under review.

Evaluation of Misstatements

Audit of Life Company Annual returns

- 89 The auditor evaluates, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention, are material to the reported information. Materiality is to be applied in the context of paragraphs 50-63 of this Guidance Statement.
- 90 In evaluating whether or not the specified life company annual returns, or data in annual returns, are, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards, the auditor exercises professional judgement, having regard to both the users and intended uses of the information in the annual returns.
- 91 The magnitude of a misstatement alone is only one factor used to assess the misstatement. The auditor evaluates each identified misstatement in the context of information relevant to users of the annual return, by considering qualitative factors and the circumstances in which each misstatement has been made. For example, in evaluating identified misstatements, the auditor has regard to factors such as the level of the life company's buffer above the particular minimum prudential capital requirements (determined under periodic quantitative calculations) and the sensitivity of these buffers to fluctuations in the life company's financial performance and position.
- 92 The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the reported information. In doing so, the auditor needs to consider the fact that the materiality of misstatements involves qualitative as well as quantitative considerations and those misstatements of a relatively small amount could nevertheless have a material effect on the reported information.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- 93 A key concern with any misstatement within a life company's annual returns is its potential impact on the life company's 'solvency requirement', 'capital adequacy requirement' and 'management capital requirement' that are determined in accordance with APRA's prudential standards¹¹. This is taken into consideration by the auditor when evaluating whether a misstatement in the life company's annual returns, has a material impact on *Solvency, Capital Adequacy and Management Capital*.
- 94 The assurance practitioners should be aware of LPS 3.04 *Capital Adequacy Standard*, where materiality in relation to solvency, capital adequacy and management capital must be considered/evaluated and applied at the statutory fund level. The materiality of the statutory fund relative to the size of the company overall may be taken into account for the purposes of assessing the impact on Capital Adequacy.
- 95 In extremely rare circumstances, the auditor may conclude that information reported in life company annual return(s) in accordance with the relevant APRA Prudential and Reporting Standards is misleading. The auditor discusses the matter with management and, depending how it is resolved, determines whether, and how, to communicate the matter in the auditor's assurance report.

Review of Internal Controls

- 96 The auditor evaluates, individually and in aggregate, whether internal control deficiencies that have come to the auditor's attention are material. Materiality is to be applied in the context of paragraphs 63-65.
- 97 The auditor exercises professional judgement in evaluating the materiality of internal control deficiencies, having regard to the intended users of the auditor's assurance report.
- 98 In evaluating the severity of identified internal control deficiencies, the auditor having regard to materiality, considers:
- (a) the likelihood that the relevant internal controls may fail to prevent or detect:
 - (i) non-compliance with a Prudential Requirement;

¹¹ Refer to LPS 100 *Solvency*, LPS 110 *Capital Adequacy* and LPS 120 *Management Capital*.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (ii) a misstatement in the data being provided to APRA in life company annual returns;
 - (iii) misstatements in actuarial data used in financial reporting;
 - (b) the significance of the potential resulting non-compliance with a Prudential Requirement in the context of the life company's overall compliance with applicable Prudential Requirements;
 - (c) the magnitude of the potential misstatement that could result from the internal control deficiency in the information reported in the life company annual returns; and
 - (d) the magnitude of the potential misstatement that could result from a deficiency in internal control over the adequacy and effectiveness of actuarial data integrity and financial reporting risks.
- 99 The evaluation of the severity of a deficiency in internal control does not depend on whether a misstatement or non-compliance with a Prudential Requirement has actually occurred, but rather the likelihood that the life company's controls may fail to prevent or detect a material misstatement or material non-compliance with a Prudential Requirement.

Reporting on Compliance with Prudential Requirements

- 100 The auditor is required to express a conclusion, based on the audit or review(s) conducted under paragraphs 76-99 above, as to whether anything has come to the attention of the auditor to cause the auditor to believe that, during the financial year, the life company has not complied, in all material respects, with all applicable Prudential Requirements in the Life Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.
- 101 Under sections 88 and 88A of the Life Act, auditors are required to report to APRA when the auditor believes the life company or its directors may have contravened the Life Act or to assist APRA to perform its functions under the Life Act (refer to paragraphs 28, 128-132 of this Guidance Statement for further detail).

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- 102 The auditor considers materiality when assessing the significance of identified instances of non-compliance with relevant Prudential Requirements.
- 103 In order to conclude on a life company's compliance with all applicable Prudential Requirements, the auditor considers the existence of relevant matters that may indicate instances of non-compliance, throughout the reporting period and up to the date of signing the auditor's assurance report.
- 104 The auditor complies with the requirements of Auditing Standard ASA 560 *Subsequent Events* (ASA 560), as appropriate, which may include the following audit procedures:
- Reading minutes of the life company's Board, as well as minutes of any sub committees responsible, for example, for oversight of compliance and audit, held after balance date and enquiring about matters discussed at these meetings for which minutes are not yet available.
 - Examining the life company's breach registers up to the date of the auditor's assurance report.
 - Enquiring of the life company's management as to whether any subsequent events have occurred which might represent non-compliance with applicable Prudential Requirements.

Written Representations

- 105 Prior to issuing the Auditor's Annual Prudential Assurance Report, the auditor obtains written representations, as are considered appropriate to matters specific to the life company, from the party responsible¹² for the life company.
- 106 These written representations are generally in the form of a representation letter. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, Auditing Standard ASA 580 *Written Representations* (ASA 580) and ASAE 3000.

¹² Management and, where appropriate, those charged with governance of the life company.

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

Inherent Limitations of the Engagement

- 107 As the systems, procedures and controls to ensure compliance with Prudential Requirements are part of the life company's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, may impact on the effective operation of the life company's specific control procedures. Furthermore, fraud, error or non-compliance with laws and regulations may occur and not be detected.
- 108 Due to the nature of audit and review procedures and other inherent limitations of an audit and review, there is a possibility that a properly planned and executed audit or review may not detect all errors or omissions in life company annual returns, deficiencies in controls, or instances of non-compliance with Prudential Requirements.
- 109 An audit provides reasonable assurance and cannot constitute a guarantee that the information included in life company annual returns specified in Attachment A to LPS 310, sourced from accounting records, is reliable, or that all instances of non-compliance with relevant APRA Prudential and Reporting Standards have been detected.
- 110 While reviews involve the application of audit related skills and techniques, usually they do not involve many of the procedures performed during an audit. In an audit, as the auditor's objective is to provide a high, but not absolute, level of assurance on the reliability of information included in life company annual returns, the auditor uses more extensive audit procedures than in a review. Review procedures, therefore, do not provide all the evidence required in an audit and, consequently, the level of assurance provided is less than that given in an audit.
- 111 The auditor performs procedures appropriate to provide limited assurance in relation to internal controls existing at the review date, and whether those controls have operated as documented throughout the financial year.

Communication

- 112 It is the responsibility of the auditor to make the life company aware, as soon as practicable, of any identified material misstatements in life company annual returns, material deficiencies in internal

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- controls and instances of material non-compliance arising from the prudential reporting engagement.
- 113 Such communications are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, the auditor needs to document the communication.
- 114 When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor considers whether to modify the auditor's annual prudential assurance report.
- 115 It is important that the auditor understands the additional statutory responsibilities to report certain matters to APRA under the Life Act. Failure to notify APRA as required represents a criminal offence, which attracts criminal penalties. Refer also to paragraphs 128-132 below.
- 116 Material findings (misstatements, control deficiencies and non-compliance) are reported to APRA and the life company's Board (or Board Audit Committee) as modifications to the auditor's assurance report (Refer paragraph 121).
- 117 Under Auditing Standard ASA 260 *Communication with Those Charged With Governance* (ASA 260), ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (ASA 265) and ASAE 3000, the auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. Examples of such matters may include:
- The general approach and overall scope of the engagement, or any additional requirements.
 - Fraud or information that indicates that fraud may exist.
 - Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the auditor's professional

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

judgement is of sufficient importance to merit the attention of those charged with governance.

- Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
- Expected modifications to the auditor's prudential assurance report.

118 The auditor informs those charged with governance of the life company of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

119 Under LPS 310, if requested by APRA, the auditor submits directly to APRA all assessments and other material associated with the auditor's report, such as management letters issued by the auditor to the life company which contain material findings relating to the auditor's prudential assurance report.

The Auditor's Annual Prudential Assurance Report

120 The auditor evaluates the conclusions drawn from the evidence obtained in conducting the assurance engagement as the basis for the auditor's opinion/conclusions as required under LPS 310.

121 If the auditor:

- (a) concludes that a material misstatement, internal control deficiency and/or non-compliance exists; or
- (b) is unable to obtain sufficient appropriate assurance evidence to conclude whether a material misstatement, internal control deficiency and/or non-compliance may exist,

the auditor modifies their opinion/conclusion, and includes a clear description of the reasons in their assurance report, in accordance with the requirements of, as appropriate, *ASA 705 Modifications to the Opinion in the Independent Auditor's Report (ASA 705)* or *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (ASA 706)* and applicable ASAEs. (Refer Appendix 2 of this Guidance Statement).

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- 122 As required under LPS 310, the auditor of a life company reports simultaneously to APRA and the life company's Board (or Board Audit Committee)¹³, within four months of the end of the financial year of the life company.
- 123 To avoid the possibility of the assurance report being used for purposes for which it was not intended, the auditor indicates in the auditor's report the purpose for which the report is prepared and any restrictions on its distribution and use in an emphasis of matter paragraph as required by ASA 800 *Special Considerations-Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* (ASA 800) (refer paragraphs 30-36).

Format of Auditor's Annual Prudential Assurance Report

- 124 AUASB Standards do not prescribe a standardised format for reporting on all assurance engagements. Instead, both Auditing Standard ASA 800 and ASAE 3000 identify the basic elements required to be included in the assurance report. The short form auditor's report ordinarily includes only the basic elements.
- 125 Assurance reports are tailored to the specific assurance engagement circumstances. Although not specifically required under LPS 310, the auditor may consider it appropriate to include other information and explanations that do not directly affect the auditor's opinion or conclusions, but provide additional useful information to the users (that is, a 'long form' style of reporting). The inclusion of this information depends on its significance to the needs of the intended users. The following are examples of additional information that may be considered for inclusion:
- Disclosure of materiality considerations (materiality levels) applied.
 - Significant findings or exceptions relating to particular aspects of the assurance engagement.
 - Recommendations.
- 126 The auditor needs to ensure that this additional information is clearly separated from the auditor's opinion and conclusions, and worded in a manner to ensure that it does not affect the opinion and

¹³ Or for a foreign Life company, a senior officer outside Australia to whom authority has been delegated in accordance with LPS 510, for overseeing the Australian operations.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

conclusions. This can be achieved, for example, by including any additional information in:

- (a) a separate appendix to the auditor's short form assurance report; or
- (b) a separate section of the auditor's short form assurance report, following the 'opinion and conclusions'¹⁴ in an other matter paragraph as required by ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (ASA 706).

This will enable users to clearly distinguish this additional information from the auditor's responsibility to report on the matters identified in LPS 310.

- 127 Refer to Appendix 1 of this Guidance Statement for an illustrative example of the auditor's annual prudential assurance report (short form report), prepared pursuant to APRA's LPS 310 annual reporting requirements.

Additional Reporting Requirements under the Life Insurance Act

- 128 It is important that management, those charged with governance and the auditor of a life company¹⁵ understand the additional responsibilities to report to APRA under sections 80, 88 and 88A of the Life Act (refer paragraph 28).
- 129 The Life Act specifies under section 80(3) that the apportionment of income and outgoings for a life company carrying on other business as well as its Life Insurance business is not effective unless a report given by the auditor of the life company for the purposes of FSCODA states that the apportionment has been made equitably and in accordance with generally accepted accounting principles. Section 80(2) of the Life Act states that before an apportionment is made, those charged with governance of the company concerned must obtain the appointed actuary's written advice whether the basis of the proposed apportionment is appropriate.

This report is provided by the auditor as part of the annual return(s) audit opinion. An example is given in Appendix 1 Part A.

¹⁴ See examples of assurance practitioner reports included in Appendix 1 to ASAE 3100.

¹⁵ See definitions at paragraph 21(e).

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- 130 Under section 88 of the Life Act the auditor has certain obligations to report to the company or those charged with governance any matters that come to the attention of the auditor that the auditor thinks requires action to be taken by the company or its directors. If the auditor of a Life company thinks that there are reasonable grounds for believing that the company or those charged with governance have contravened the Life Act or any other law and it may significantly affect the interests of the policy holders the auditor must immediately inform APRA in writing. Persons involved in the provision of information should note that it is a serious offence under sub section 137.1 and 137.2 of the *Criminal Code 1995* to provide, whether directly or indirectly, false or misleading documents or information to a Commonwealth entity such as APRA.
- 131 Section 89 of the Life Act applies the concept of qualified privilege to auditors of a life company and is in addition to any privilege conferred on a person by the *Corporations Act 2001*.

Auditor may provide information to APRA

- 132 Section 88A of the Life Act states:
- (a) a person who is or was the auditor of a life company may give information, or produce books, accounts or documents, about the life company to APRA if the person considers that doing so will assist APRA in performing its functions under this Act or under the FSCODA.
 - (b) a person who, in good faith and without negligence, gives information to APRA in accordance with this section is not subject to any action, claim or demand by, or any liability to, any other person in respect of the information.

Special Purpose Engagements

APRA Prudential Reporting Requirements (LPS 310)

- 133 Under LPS 310, in addition to the annual prudential reporting requirements, APRA may require a life company, by notice in writing, to arrange for its auditor (who may be the existing auditor or another auditor agreed to by APRA and satisfies the criteria in LPS 310), to provide a report on a particular aspect of the life company's operations, risk management or financial affairs. Although a special purpose engagement report will normally only be requested following consultation with a life company, APRA may

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- commission such a report without prior consultation with a life company.
- 134 Unless otherwise determined by APRA, an auditor appointed to undertake a special purpose engagement will be required to provide limited assurance [review] on the matters required to be reported on.
- 135 Under LPS 310, the auditor's special purpose engagement assurance report is to be submitted simultaneously to APRA and the life company's Board (or Board Audit Committee)¹⁶, within three months of the date of the notice commissioning the report, unless otherwise determined by APRA, and advised to the life company by notice in writing.
- 136 The APRA requirement for an auditor to undertake a special purpose engagement in a selected area of the life company's operations, risk management or financial affairs constitutes a separate reporting engagement. The details of the engagement will normally be the subject of a specific request from APRA to the life company and a separate engagement letter from the life company to the auditor based on that request.

Terms of the Engagement

- 137 Following the determination by APRA of the specific area to be examined, the auditor, APRA and the life company agree on the terms of the engagement in accordance with the requirements of applicable AUASB Standards. These arrangements are legally binding and include the required terms of engagement specified in LPS 310.
- 138 The auditor accepts the engagement only when the auditor is satisfied that the auditor and the engagement team, if applicable, have met the relevant ethical requirements relating to the assurance engagement. The concept of independence is important to the auditor's compliance with the fundamental ethical principles of integrity and objectivity and the auditor must be able to meet the independence requirements stipulated under both LPS 510 and ASA 102.
- 139 An engagement letter (or other suitable form) helps to avoid misunderstandings with respect to the engagement and confirms both the life company's and the auditor's understanding of the terms

¹⁶ Or, for a foreign life company, a senior officer outside Australia to whom authority has been delegated in accordance with LPS 510 for overseeing the Australian operations.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

of the engagement, and the auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.

- 140 To ensure that there is a clear understanding regarding the terms of the engagement, the following are examples of matters to be agreed:
- APRA is to identify the scope of the life company's operations, risk management or financial affairs to be the subject of the engagement.
 - The auditor, APRA and the life company are to agree on the objectives of the engagement, key features and criteria of the area(s) to be examined, and the period to be covered by the engagement.
 - APRA is to identify clearly the level of assurance required, that is, limited or reasonable assurance.
 - The format of reports required (for example, long and/or short form reports) and other communication of results of the engagement.
 - Responsibility of those charged with governance for the subject matter of the engagement.
 - Understanding of the inherent limitations of an assurance engagement.

Format of Reporting Requirements

- 141 The format of the special purpose assurance report may vary depending on the type of engagement: that is, an audit (reasonable assurance) or a review (limited assurance), as well as the subject matter and the findings. The auditor has regard to the requirements, guidance and illustrative examples of reports provided in relevant AUASB Standards - ASAs, ASREs and ASAEs, as applicable, when preparing the special purpose assurance report.
- 142 AUASB Standards do not require a standardised format for special purpose reporting under LPS 310. Instead, these Standards identify the basic elements to be included in the auditor's report. Ordinarily, the auditor adopts a long form style of reporting and the report may include a description of the terms of the engagement, materiality considerations applied, the assurance approach and an other matter

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

paragraph which may include - findings relating to particular aspects of the engagement and, in some cases, recommendations.

- 143 The auditor's assurance report is to be restricted to the parties that have agreed to the terms of the special purpose engagement, namely the life company and APRA, as well as other parties with whom APRA is lawfully entitled to share the information, by means of an emphasis of matter paragraph required by ASA 706 (refer example at Appendix 1).

Conformity with International Pronouncements

- 144 As this Guidance Statement relates to Australian legislative requirements, there is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

Appendix 1

(Ref: Para.126)

EXAMPLE SPECIAL PURPOSE

AUDITOR'S REPORT

For an Annual Prudential Reporting Engagement Undertaken Pursuant to APRA Prudential Standard LPS 310 *Audit and Related Matters*

The following example auditor's report is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the life company. The auditor's opinion and conclusions given in the examples are based on the requirements set by APRA in LPS 310.

[Note: Generally the reports illustrated in *Section A* and *Section B* below are formulated as separate special purpose reports. This however, does not preclude the auditor from issuing one special purpose report that covers both the reasonable and limited assurance opinions if it were appropriate under the engagement requirements and circumstances]

Section A [Reasonable Assurance on APRA Annual Returns]

To [Title of Those Charged with Governance¹⁷] of [name of life company]

We have audited the attached Annual APRA Return, being a special purpose financial report of [name of Life company] for the year ended [date]. The Annual APRA Return comprises forms:

LRF 100.0 -

LRF 120.0 -

[include a full list of Annual APRA Forms as appropriate]

¹⁷ Or, for a foreign life company, a senior officer outside Australia to whom authority has been delegated, in accordance with Prudential Standard LPS 510 *Governance* (LPS 510), for overseeing the Australian operations.

**Responsibilities of Management and [Title of Those Charged
with Governance]**

Management and [Title of Those charged with Governance] of [name of life company] are responsible for the preparation and fair presentation of the Annual APRA return and the information it contains, in accordance with the requirements of the *Life Insurance Act 1995*, the *Financial Sector (Collection of Data) Act 2001* and Australian Prudential Regulation Authority (APRA) Reporting Standards, insofar as they do not conflict with the above Australian Accounting Standards; and for such internal control as management determines is necessary to enable the preparation and fair presentation of the Annual APRA return that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Annual APRA Return based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Auditing Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether, in all material respects, the Annual APRA Return:

- (a) has been prepared in accordance with the *Life Insurance Act 1995*, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards LRS 100.0 to LRS 340.0;
- (b) is reliable;
- (c) meets prudential requirements in relation to the accounting for statutory funds;
- (d) presents fairly, the financial position of the company at year end in accordance with APRA Reporting Standards LRS 100.0 to LRS 340.0; and
- (e) the apportionments made under Division 2 of Part 6 of the *Life Insurance Act 1995* have been made in accordance with generally acceptable accounting principles.

Our audit did not involve an analysis of the prudence of business decisions made by those charged with governance. Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual APRA Return. The procedures selected depend on our judgement, including assessment of the risks of material misstatement of the Annual

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

APRA Return, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation and fair presentation of the Annual APRA Return in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by those charged with governance (management), as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the Australian professional accounting bodies and those specified by APRA in Prudential Standard LPS 510 *Governance*.

[Basis for Qualified / Adverse / Disclaimer of Opinion]

[Provide details or refer to attachment. Appendix 2 of this Guidance Statement provides an example format for reporting these findings.]

Opinion¹⁸

In our opinion, in all material respects:

- (a) the Annual APRA return of [name of entity], in respect of the year ended [date], comprising forms LRF 100.0 to LRF 340.0:
 - (i) has been prepared in accordance with the *Life Insurance Act 1995*, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards LRS 100.0 to LRS 340.0;
 - (ii) is reliable;
 - (iii) meets prudential requirements in relation to the accounting for statutory funds; and
 - (iv) presents fairly, the financial position of the company at [year end] in accordance with APRA Reporting Standards LRS 100.0 to LRS 340.0.

¹⁸ If the auditor's opinion includes a qualification / adverse or disclaimer opinion the words in the opinion paragraph will need to change accordingly.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

- (b) the apportionments made under Division 2 of Part 6 of the *Life Insurance Act 1995* have been made in accordance with generally acceptable accounting principles.

Basis of Restriction on Distribution

The Annual APRA Return has been prepared for the purpose of fulfilling the reporting requirements of the company under the *Life Insurance Act 1995*, Section 13 of the *Financial Sector (Collection of Data) Act 2001* and the APRA Reporting Standards. We disclaim any assumption of responsibility for any reliance on this report or on the Annual APRA Return to which it relates to any party other than the company and APRA, or for any purpose other than that for which it was prepared.

[Auditor's signature]

[Date of the Auditor's report]

[Auditor's address]

Section B [Limited Assurance on Controls to Ensure Compliance with APRA Prudential Requirements]

To [Title of Those Charged with Governance] of [name of life company]

We have performed a review pursuant to the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standard LPS 310 *Audit and Related Matters* (LPS 310), described in the *Scope* section, paragraphs *Part A* to *Part D*, of this report.

Responsibilities of Management and [Title of Those Charged with Governance]

Management and [Title of Those Charged with Governance] of, [name of life company] are responsible for ensuring that there are adequate systems, procedures and internal controls to ensure compliance with all applicable prudential standards, the *Life Insurance Act 1995*, the Regulations, the *Financial Sector (Collection of Data) Act 2001*, reporting standards, authorisation conditions, directions and any other requirements imposed by APRA in writing.

Auditor's Responsibility

Our responsibility is to perform a review as required by LPS 310, described in *Scope* paragraphs *Part A* to *Part D* of this report, and to express a conclusion based on our review.

We conducted our review in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that [name of life company] has not complied, in all material respects, with its responsibilities and reporting requirements. ASAE 3000 requires us to comply with fundamental ethical requirements.

Our audit of the financial report required under the *Corporations Act 2001* and our audit of the yearly statutory accounts (Annual APRA Return) required under the *Life Insurance Act 1995*, the *Financial Sector (Collection of Data) Act 2001* and Australian Prudential Regulation Authority (APRA) Reporting Standards is directed towards obtaining sufficient evidence to form an opinion under the appropriate legislation. Our audit was not designed to enable us to conclude on other matters required by the APRA Reporting Standards. We have therefore performed review procedures in order to meet our responsibilities in relation to controls designed to ensure compliance with APRA Prudential Requirements.

Our review procedures include test checking to the general ledger or appropriate sub ledger or sub system but do not extend to auditing the financial or statistical information presented in the Quarterly APRA Returns nor forms LRF 400.0 to 430.0 in the Annual APRA Return. Our review consists primarily of making enquiries of the life company's personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Inherent limitations

There are inherent limitations in any internal control structure, and fraud, error or non-compliance with laws and regulations may occur and not be detected. As the systems, procedures and controls to ensure compliance with APRA Prudential Requirements are part of the operations of [name of life company], it is possible that either the inherent limitations of the general internal control structure, or weaknesses in it, can impact on the effective operation of the specific control procedures of [name of life company].

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

Furthermore, projections of any evaluation of internal control to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. Consequently, there are inherent limitations on the level of assurance that can be provided.

Accounting records and data relied on for prudential reporting and compliance are not continuously audited and do not necessarily reflect accounting adjustments necessary for end of reporting period financial report preparations, or events occurring after the end of the reporting period.

The conclusions in this report expressed below are to be read in the context of the foregoing comments.

Scope

Part A – Existence of Controls Addressing Compliance with Prudential Requirements

We performed review procedures that we considered necessary in relation to [name of life company] systems, procedures and controls that address compliance with all applicable Prudential Requirements. Prudential Requirements are imposed by the:

- (a) *Life Insurance Act 1995*;
- (b) Insurance Regulations 2002;
- (c) APRA Prudential Standards and Rules;
- (d) *Financial Sector (Collection of Data) Act 2001*;
- (e) APRA Reporting Standards;
- (f) APRA conditions on the company's registration;
- (g) Directions issued by APRA pursuant to the *Life Insurance Act 1995*; and
- (h) Other requirements imposed by APRA in writing (if applicable).

[*Note :- If the company does not comply with any prudential standards, a list of all the prudential standards complied with by the company should be listed under section (e) above*]

**Guidance Statement GS 017 Prudential Reporting Requirements for
Auditors of a Life Company**

We have performed these procedures to enable us to state, on the basis of our review as described, whether anything has come to our attention that causes us to believe that, at the date of our review, there did not exist systems, procedures and internal controls that are designed to ensure that the life company has complied, in all material respects, with all applicable Prudential Requirements, specified above, and that these systems, procedures and internal controls have operated effectively throughout the financial year of the company.

Part B – Controls in Place to Ensure Reliable Statistical and Financial Data.

We have performed review procedures that we considered necessary in relation to [name of life company] systems, procedures and internal controls in place for the [insert period], to ensure that reliable statistical and financial data are provided to APRA in the APRA Returns, required by APRA Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*:

LRF 100.0 *Solvency*;

LRF 110.0 *Capital Adequacy*; and

LRF 340.2 *Retained Profits*

We have performed a review of systems, procedures and controls in order to state whether, on the basis of the review procedures described, anything has come to our attention that causes us to believe that [name of life company] does not have in place systems, procedures and controls to ensure that, in all material respects, reliable statistical and financial data are provided to APRA in the APRA Returns.

Our review procedures included test checking to the general ledger or appropriate sub ledger or sub system but did not extend to auditing the financial or statistical information presented in all APRA Returns.

Part C – Adequacy and Effectiveness of Controls Relating to Actuarial Data Integrity and Financial Reporting Risks.

We have performed review procedures that we considered necessary in relation to [name of life company] systems, procedures and controls relating to actuarial data integrity and financial reporting risks (risks that incorrect source data will be used in completing the reporting forms under the *Financial Sector (Collection of Data) Act 2001*, that address the risk of material error in the APRA returns for the [insert period]).

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

We have performed these procedures to enable us to state, on the basis of our review as described, whether anything has come to our attention that causes us to believe that for the [insert period] [name of life company] did not have systems, procedures and internal controls relating to actuarial data integrity and financial reporting risks [risks that incorrect source data will be used in completing the reporting forms under FSCODA], that are in all material respects, adequate and operating effectively to address the risk of material error in the APRA returns.

Part D – Issues Identified in the Conduct of our Review Procedures

We have evaluated the results of our procedures conducted during:

- (a) this review;
- (b) our audit of the relevant APRA Returns prepared in accordance with the *Life Insurance Act 1995*; and
- (c) our audit [and review] performed under the *Corporations Act 2001*,

in order to report to [Title of Those Charged with Governance] of [name of life company] and APRA, instances in which the company has not complied with all applicable Prudential Requirements (refer *Part A* of this report).

We have not performed any review procedures that were designed specifically to identify such circumstances or instances of non compliance and therefore provide no assurance that all such circumstances or instances of non compliance have been identified and reported.

Independence

In conducting our review we have met the independence requirements of the Australian professional accounting bodies and those specified by APRA in Prudential Standard LPS 510 Governance.

[Basis for Qualified / Adverse / Disclaimer of Opinion]

Part A – Existence of Controls Addressing Compliance with Prudential Requirements

[Provide details where a qualification is included]

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

Part B – Controls in place to ensure reliable Statistical and Financial Data.

[Provide details where a qualification is included]

Part C – Adequacy and Effectiveness of Controls Relating to Actuarial Data Integrity and Financial Reporting Risks.

[Provide details where a qualification is included]

Part D – Issues Identified in the Conduct of our Review Procedures

[Provide details where a qualification is included]

[Qualified] Conclusion¹⁹

Part A – Existence of Controls Addressing Compliance with Prudential Requirements

Based on our review, which is not an audit, [except for the matters referred to in the basis for qualified opinion paragraph above], nothing has come to our attention that causes us to believe that, at the date of our review [insert date], [name of life company] did not have in place systems, procedures and controls to address compliance, in all material respects, with the specified Prudential Requirements, and that these systems, procedures and controls did not operate effectively throughout the financial year [date].

Part B – Controls in place to ensure reliable Statistical and Financial Data

Based on our review, which is not an audit, [except for the matters referred to in the basis for qualified opinion paragraph above], nothing has come to our attention that causes us to believe that, for the [insert period], [name of life company] did not have in place systems, procedures and controls to ensure that, in all material respects, reliable statistical and financial data were provided to APRA in the APRA Returns required by APRA Reporting Standards made under the FSCODA, [insert period].

Part C – Adequacy and Effectiveness of Controls Relating to Actuarial Data Integrity and Financial Reporting Risks

Based on our review, which is not an audit, [except for the matters referred to in the basis for qualified opinion paragraph above,], nothing has come to our attention that causes us to believe that, for the [insert period], [life company] did not have systems, procedures and controls relating to actuarial data

¹⁹ If the auditor's opinion includes an adverse or disclaimer opinion the words in the opinion paragraph(s) will need to change accordingly.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

integrity and financial reporting risks (the risks that incorrect source data will be used in completing the returns to APRA in accordance with the requirements of FSCODA that are adequate and effective to address the risk of material error in the APRA returns.

Part D – Issues Identified in the Conduct of our Review Procedures

Based on our review, which is not an audit, [except for the matters referred to in the basis for qualified opinion paragraph above], nothing has come to our attention that causes us to believe that during the [insert period] the [name of life company] did not comply with, in all material respects:

- (a) all applicable Prudential Requirements as listed in the scope section Part A
- (b) has provided reliable data to APRA in the reporting forms prepared under FSCODA (including those provided quarterly); and
- (c) the internal controls over (a) and (b) have operated effectively throughout the financial period; and
- (d) systems, procedures and internal controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing the reporting forms under FSCODA) are adequate and effective.

Basis of Restriction on Distribution

This report has been prepared solely for [Title of Those Charged with Governance] in order to meet the APRA reporting requirements of [name of life company]. This report is not to be used for any other purpose or be distributed to any other party. We disclaim any assumption of responsibility for any reliance on this report to any party other than [name of life company] and APRA, or for any purpose other than that for which it was prepared.

Firm

[Name of Partner]

Partner

[Date]

Appendix 2

(Ref: Para.123)

EXAMPLE ATTACHMENT TO THE AUDITOR'S SPECIAL PURPOSE REPORT - MATERIAL FINDINGS OR EXCEPTIONS

The following example attachment to the auditor's Special Purpose Report (reasonable or limited assurance) is to be used as a guide only, and will need to be adapted according to the engagement requirements and circumstances of the life company.

This attachment accompanies, and forms part of, the example Auditor's Report provided in Appendix 1.

ATTACHMENT 1: MATERIAL FINDINGS OR EXCEPTIONS

This attachment has been prepared for distribution to [Title of Those Charged with Governance]²⁰ of [name of life company] and APRA. It accompanies, and forms part of, the Auditor's Special Purpose Report dated [date], for the financial year ended [date], prepared pursuant to the reporting requirements specified in APRA's Prudential Standard LPS 310 *Audit and Related Matters*.

- (a) Material Misstatements in Life Company Annual Return(s) not previously advised by the [type of life company] to APRA

During our audit and/or review of the life company Annual return(s), we noted the following:

- a. Errors in Annual Return XXX

Error: Line []

This error was due to

We recommend that

²⁰ Or, for a EFLIC, a senior officer outside Australia to whom authority has been delegated in accordance with Prudential Standard LPS 510 *Governance*, for overseeing the Australian operations.

Guidance Statement GS 017 Prudential Reporting Requirements for Auditors of a Life Company

[The appropriate correct disclosure accompanies the reporting of any error(s)]

- (b) Significant non-compliance with relevant Prudential Requirements under the *Life Insurance Act 1995* and the *Financial Sector (Collection of Data) Act 2001*, including APRA Prudential and Reporting Standards, identified during the financial year and up to the date of signing the auditor's assurance report.
 - a. Matters previously reported to APRA by the auditor:
.....
 - b. Matters previously reported to APRA by the [type of Life company]:
.....
 - c. Matters not previously reported to APRA:
.....

[Auditor's signature]

[Date of the Auditor's report]

[Auditor's address]