

GS 004
(May 2013)

Guidance Statement GS 004
*Audit Implications of Prudential Reporting
Requirements for General Insurers and
Insurance Groups*

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



Australian Government

Auditing and Assurance Standards Board

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PREFACE

How this Guidance Statement is to be used

This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), to provide guidance to the Appointed Auditor of a general insurer and the Group Auditor of a Level 2 insurance group, reporting in accordance with the prudential reporting requirements specified by the Australian Prudential Regulation Authority (APRA) in its Prudential Standard GPS 310 *Audit and Related Matters* (GPS 310).

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

- (a) GPS 310 and other applicable APRA Prudential Requirements, including the *Insurance Act 1973* (the Act), the *Financial Sector (Collection of Data) Act 2001* (FSCODA), and APRA Prudential and Reporting Standards;
- (b) applicable AUASB Standards; and
- (c) relevant ethical and professional standards.

This Guidance Statement does not extend the responsibilities of an Appointed Auditor of a general insurer and the Group Auditor of a Level 2 insurance group beyond those which are imposed by the 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 Appointed Auditor or Group Auditor.

It is not intended that this Guidance Statement limits or replaces the Appointed Auditor or Group Auditor's professional judgement and initiative, or limits the application of relevant AUASB Standards. AUASB Standards contain the requirements 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 requirements of the particular situation, giving careful consideration to the size and type of general insurer and/or insurance group and the adequacy of its internal controls.

Structure of the Guidance Statement

This Guidance Statement includes reference to prudential reporting requirements for general insurers (insurer) and Level 2 insurance groups (insurance groups) and their auditors as specified by APRA.

Certain prudential reporting requirements are common to both the Appointed Auditor of a general insurer and the Group Auditor of an insurance group as described in paragraph 5 of this guidance statement. Where such common requirements exist, the guidance in this guidance statement applies to both types of entities and their auditors.

Instances where the prudential reporting requirements are unique to either the Appointed Auditor of the general insurer or the Group Auditor of the insurance group, are described separately under the sub headings "*Appointed Auditor*" and "*Group Auditor*"; or where a new section to the guidance is included such as "Report on Review of Group Annual Accounts by the Group Auditor".

The definitions of a general insurer and an insurance group are provided in paragraph 9 of this guidance statement. For the purposes of this guidance statement, a Level 2 insurance group will be referred to as an "insurance group".

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers*, 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: 16 May 2013

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 004

Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to the Appointed Auditor of a general insurer and the Group Auditor of a Level 2 insurance group¹ in reporting, pursuant to the prudential reporting requirements specified by the Australian Prudential Regulation Authority (APRA) in *Prudential Standard GPS 310 Audit and Related Matters*.
2. APRA Prudential Standard GPS 310 *Audit and Related Matters* applies to general insurers and insurance groups from 1 January 2013.

Issuance Date

3. This Guidance Statement is issued on 16 May 2013 by the AUASB and replaces GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers*, issued in October 2007.

Introduction

APRA Prudential Standards

4. The primary objective of general insurance Prudential Requirements is the protection of the interests of policyholders and prospective policyholders. This Guidance Statement acknowledges that the auditor of an insurer and an insurance group, has an important role to play in the prudential supervision process.
5. Reporting requirements imposed on the Appointed Auditor of a general insurer and the Group Auditor of the insurance group by APRA are in addition to the audit and review of financial reports required under the *Corporations Act 2001*. Section 49 of the *Insurance Act 1973* (the Act), in conjunction with *APRA Prudential Standard GPS 310 Audit and Related Matters* (reissued in January 2013), include the following additional requirements of the Appointed Auditor and Group Auditor:
 - (a) Appointed Auditor
 - (i) an audit (reasonable assurance) of the insurer's yearly statutory accounts;
 - (ii) a review (limited assurance), on an annual basis, of the insurer's systems, procedures and controls designed to address compliance with all applicable Prudential Requirements and to enable the insurer to report reliable financial and statistical information to APRA;
 - (iii) a review (limited assurance), on an annual basis, of the insurer's compliance, in all significant respects, with its Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS);
 - (iv) a special purpose engagement (which may be an audit, review or agreed-upon procedures), where requested by APRA in writing, of specific matters relating to the insurer's operations, risk management or financial affairs; and
 - (v) non-routine reporting under sections 49, 49A and 49B of the Act, where APRA requests specific information, or where the auditor possesses reportable information specified in that Act or where the auditor considers that the

¹ The terms Appointed Auditor, Group Auditor, general insurer and Level 2 insurance group are all defined by APRA in GPS 001 *Definitions*.

provision of information would assist APRA in performing its functions under the Act.

- (b) Group Auditor
 - (i) a review (limited assurance) of the annual accounts of the group;
 - (ii) a review (limited assurance), on an annual basis, of the group's systems, procedures and controls designed to address compliance with all applicable Prudential Requirements and to enable the group to report reliable financial and statistical information to APRA;
 - (iii) a review (limited assurance), on an annual basis, of the group's compliance, in all significant respects, with its Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS);
 - (iv) a special purpose engagement (which may be an audit, review or agreed-upon procedures), where requested by APRA in writing, of specific matters relating to the group's operations, risk management or financial affairs; and
 - (v) non-routine reporting under sections 49, 49A and 49B of the Act, where APRA requests specific information, or where the group auditor possesses reportable information specified in that Act or where the Group Auditor considers that the provision of information would assist APRA in performing its functions under the Act.
6. Previously, GPS 310 only dealt with prudential requirements for general insurers and their appointed auditors. Prudential Standard GPS 311-1 issued in December 2011, dealt separately with the requirements for insurance groups and their group auditors. The reissued GPS 310 now incorporates the prudential requirements in relation to the insurance group and the group auditor.

Guidance Statement GS 004

7. This Guidance Statement has been developed to assist the Appointed Auditor of a general insurer and the Group Auditor of an insurance group in reporting, pursuant to the prudential reporting requirements specified by APRA and not in relation to reporting on the audit of the financial report of an insurer or insurance group, for which mandatory requirements and explanatory guidance are provided in Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*.
8. This Guidance Statement is to be read in conjunction with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, Auditing Standard ASA 800 *Special Considerations-Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, and relevant APRA Prudential requirements and best practice guidance in this area.

Definitions

9. For the purposes of this Guidance Statement, the following items have the meanings attributed below:
- (a) Annual Accounts of an insurance group, refers to accounts constituting reporting documents required to be prepared by the parent entity of the group in compliance with reporting standards made under the *Financial Sector (Collection of data) Act 2001*.
 - (b) Appointed Auditor means an auditor appointed under paragraph 39(1)(a) of the *Insurance Act 1973* (the Act).
 - (c) General insurer means, under section 11 of the *Insurance Act 1973* (the Act) as amended, a body corporate that is authorised in writing by APRA, under section 12 of the Act, to carry on general insurance business in Australia. The term 'general insurer

(insurer) includes a foreign general insurer (foreign insurer) as defined in subsection 3(1) of the Act².

- (d) Group Auditor of a Level 2 insurance group, under GPS 310 must be one of the following persons:
- (i) the Appointed Auditor of the parent entity where the parent entity is an insurer;
 - (ii) the Appointed Auditor of an APRA-authorised insurer within the group; or
 - (iii) a responsible auditor of the parent entity where the parent entity is an authorised Non-Operating Holding Company (NOHC)
- (e) Level 2 insurance group (insurance group), under *Prudential Standard GPS 001 Definitions*³ is:
- (i) where there is no authorised NOHC and an insurer has controlled entities, the consolidation of the insurer and its controlled entities; or
 - (ii) where there is an authorised NOHC, the consolidation of the authorised NOHC and its controlled entities; or
 - (iii) where there is no authorised NOHC and an insurer does not have controlled entities, the consolidation of the insurer and any entity that meets the following criteria:
 - ◆ the entity is subject to control by an entity or group of related entities that are the same or very similar to the entity or group of related entities that control the insurer; and
 - ◆ the entity conducts insurance business or business related to insurance business; and
 - ◆ APRA determines, in writing, that the entity is to be consolidated.
- However, APRA may, in writing, determine that a group that meets subparagraph (i) or (ii) is not to be treated as a Level 2 insurance group.
- (f) Parent Entity of a Level 2 insurance group, under GPS 310 is:
- (i) where the Level 2 insurance group is headed by an authorised NOHC, the authorised NOHC; and
 - (ii) where the Level 2 insurance group is headed by an insurer, the insurer.
- APRA may, in writing, determine that a different entity within a Level 2 insurance group (which must be an insurer, authorised NOHC or a subsidiary of an insurer or authorised NOHC) is the parent entity of that group.
- (g) Yearly Statutory Accounts, in relation to a body corporate, means the reporting documents⁴ that the body corporate is required to lodge with APRA in respect of a financial year, under section 13 of the *Financial Sector (Collection of Data) Act 2001* (*FSCODA Act 2001*).

Trilateral Relationship

10. Periodic APRA liaison with the Appointed or Group Auditor will be conducted normally under trilateral arrangements involving APRA, the insurer or insurance group and the

² Reference to insurer hereafter includes also a foreign insurer, unless specified otherwise.

³ Refer Attachment D to Prudential Standard GPS 001 *Definitions* for further explanation of the definition of Level 2 insurance group.

⁴ Refer to *FSCODA Act 2001*, section 13 for definition of reporting documents.

Appointed or Group Auditor. Under GPS 310, any one of these parties may initiate meetings or discussions at any time, when considered necessary.

11. However, notwithstanding the trilateral relationship, in exceptional circumstances, such as that required under the statutory obligations imposed by sections 49, 49A and 49B of the Act, an insurer's Appointed Auditor or Group Auditor and APRA may engage with each other on a bilateral basis where either party considers this to be necessary (refer paragraphs 122-131). APRA may communicate with the Appointed Auditor or Group Auditor on a bilateral basis to obtain or discuss information for whatever reason(s) it considers appropriate.
12. The continual development of the trilateral arrangements assists in achieving:
 - (a) greater clarity of expectations by APRA of the Appointed or Group Auditor;
 - (b) more meaningful contribution to the prudential supervisory process through special purpose engagements (refer paragraphs 109-121) undertaken by the Appointed or Group Auditor in accordance with instructions from the insurer to meet the requirements of APRA; and
 - (c) improved value-added feedback to insurer management in areas such as the RMS and the REMS and systems to implement insurer strategies.

APRA Prudential Requirements

13. The Act provides for the prudential supervision of insurers by APRA, the national prudential regulator created on 1 July 1998⁵.
14. APRA formulates, promulgates and enforces prudential policy and practice applicable to insurers and insurance groups. It does this through General Insurance Prudential Standards (GPSs), which have the force of law. Non-enforceable best practice guidance in relation to prudential matters is contained in Prudential Practice Guides (GPGs).
15. Without limiting the role of the Prudential Standards in their entirety, the Prudential Standard of most relevance to the auditor of an insurer and/or insurance group is GPS 310.
16. Under GPS 001, the term 'Prudential Requirements'⁶ includes requirements imposed by:
 - (a) the Act;
 - (b) *Insurance Regulations 2002*;
 - (c) APRA Prudential Standards;
 - (d) *Financial Sector (Collection of Data) Act 2001* (the Collection of Data Act);
 - (e) APRA Reporting Standards (made under the Collection of Data Act);
 - (f) APRA conditions on the insurer's authorisation;
 - (g) Directions issued by APRA pursuant to the Act; and
 - (h) Any other requirements imposed by APRA in writing⁷.

Access to the Prudential Standards, Practice Guides and legislation relevant to insurers is available through APRA's website (<http://www.apra.gov.au>)

⁵ Australian Prudential Regulation Authority Act 1998.

⁶ These requirements may differ between locally incorporated and foreign insurers.

⁷ In relation to the Prudential Review Report, the auditor will report on the Prudential Requirements specified in writing by APRA of which the auditor is aware. Also refer to paragraphs 18 and 89.

Obligations of the Insurer and the Insurance Group

Lodgement of Auditor's Reports

17. Under section 49L of the Act, an insurer and parent entity of an insurance group are required to submit to APRA all certificates and reports required to be prepared by their Appointed or Group Auditor in accordance with the Prudential Requirements and within the time specified in GPS 310.

Responsibility to Keep Auditor Informed

18. Under section 49J of the Act, an insurer and parent entity of an insurance group are required to make arrangements necessary to enable the Appointed or Group Auditor to undertake the audit function as required by the Act and Prudential Standards made under the Act. Under GPS 310, these arrangements include ensuring that the Appointed or Group Auditor is kept fully informed of all APRA Prudential Requirements applicable to the insurer and/or insurance group.
19. Under GPS 310, the insurer and parent entity of the insurance group are furthermore required to ensure that the auditor has access to all relevant data, information, reports and staff of the insurer or insurance group, that the auditor reasonably believes is necessary to fulfil their responsibilities. This includes access to those charged with governance⁸ of the insurer and insurance group and to the Board Audit Committee.
20. In particular, the insurer and insurance group are required to provide the auditor with access to their Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS) documents, as discussed below, approved by those charged with governance and forwarded to APRA by the insurer and insurance group, including information relating to the timing of their supply to APRA and any changes in the documents.
21. In relation to the insurer's or insurance group's responsibility to keep the Appointed or Group Auditor informed, the Appointed or Group Auditor requests management of the insurer and/or insurance group to sign an appropriate representation letter⁹.

RMS and REMS Documents

22. Prudential Standard GPS 220 *Risk Management* (GPS 220) requires an insurer and the insurance group to have in place a Risk Management Framework (RMF) to manage the risks arising from its business. Prudential Standard GPS 230 *Reinsurance Management* (GPS 230) requires an insurer and the insurance group to have in place, as part of their overall RMF, a Reinsurance Management Framework (REMF) to manage the risks arising from their reinsurance arrangements. There must be a clear link between the insurer's and the insurance group's REMF (including its REMS) and the insurer's or group's RMF.
23. The RMS is a high level, strategic document intended to describe the key elements of an insurer's and insurance group's RMF, including the insurer's risk appetite, policies, procedures, managerial responsibilities and controls to identify, assess, monitor, report on and mitigate all material risks, financial and non-financial, having regard to such factors as the size, business mix and complexity of the insurer's operations. Appendix 6 of this Guidance Statement includes a list of some of the key aspects to be included in an insurer's and/or the insurance group's RMS¹⁰.
24. The REMS is a high level, strategic document intended to describe the key elements of the insurer's REMF, including policies, procedures, management responsibilities and controls to manage the selection, implementation, monitoring, review, amendment and documentation of reinsurance arrangements of the insurer or the insurance group. Appendix 6 of this Guidance

⁸ The term "those charged with governance" refers to either the board (for a locally incorporated Insurer or Insurance Group) or the senior officer outside Australia to whom authority has been delegated in accordance with Prudential Standard CPS 510 *Governance* (for a foreign insurer).

⁹ The auditor has regard to the requirements and guidance provided in Auditing Standard ASA 580 *Written Representations* when requesting this letter.

¹⁰ Refer to Prudential Standards GPS 220 for all requirements.

Statement includes a list of some of the key aspects to be included in an insurer's and the insurance group's REMS¹⁰.

Risk Management and Financial Information Declarations

25. Under GPS 220, an insurer or parent entity of the insurance group is required to submit to APRA, at the same time as lodgement of the yearly statutory accounts or group annual accounts, a declaration on risk management and on financial information. These Declarations include statements by the insurer or the insurance group on: the reliability of financial information lodged with APRA by the insurer or insurance group; the adequacy of the insurer's or group's systems in place to ensure compliance with APRA Prudential Requirements; the effectiveness of the insurer's or insurance group's processes and systems surrounding the production of financial information; and compliance with the insurer's or insurance group's RMS and REMS. Refer to GPS 220 for information in relation to an insurer's or insurance group's Risk Management and Financial Information Declarations.
26. The Appointed or Group Auditor is not required to form an opinion on these Declarations other than in the context of the auditor's responsibility to express a conclusion on the insurer's or insurance group's compliance with the responsibilities and reporting requirements of GPS 310.

Role and Responsibilities of the Appointed Auditor and Group Auditor

Those Who May Conduct the Audit and Review

27. Section 39 of the Act outlines the mechanism for the appointment of an auditor by an insurer and parent entity of the insurance group. Under this section, an insurer or the insurance group must not appoint a person as the auditor unless:
 - (a) the insurer is reasonably satisfied that the person meets the eligibility criteria for such an appointment set out in the Prudential Standards; and
 - (b) no determination is in force under section 44 which disqualifies the person from holding such an appointment¹¹.
28. Prudential Standard CPS 520 *Fit and Proper* (CPS 520) sets out the eligibility criteria for appointment as auditor of an insurer or insurance group. Prudential Standard CPS 510 *Governance* (CPS 510) includes provisions relating to the independence of an Appointed Auditor or Group Auditor engaged to perform work of a prudential nature in relation to the Act, APRA Prudential Standards and APRA Reporting Standards.
29. Section 44 of the Act sets out the circumstances under which APRA may disqualify a person from holding an appointment as an auditor of an insurer.¹² APRA may, if satisfied that grounds exist under section 49R¹³, direct an insurer to remove an auditor.

Role and Responsibilities of the Appointed Auditor and Group Auditor

30. Under section 41 of the Act, an auditor appointed by an insurer and the Group Auditor appointed by the parent entity of an insurance group, must comply with the Prudential Standards in performing their duties and exercising their powers.
31. Sections 49, 49A and 49B of the Act, together with GPS 310, specify certain circumstances where the Appointed Auditor or Group Auditor is required to report to APRA on a non-routine basis, where APRA requests specific information, or where an Appointed Auditor or Group Auditor possesses reportable information specified in the Act or where the Appointed Auditor or Group Auditor considers that the provision of information would assist APRA in performing its functions under the Act (refer paragraphs 122-131).

¹¹ With effect from 1 January 2008, APRA will no longer be required to approve the appointment of a person as the auditor of an insurer.

¹² Individuals disqualified in this manner may request that APRA review that decision. An appeal process is set out in Part VI of the Act.

¹³ With effect from 1 January 2008.

Appointed Auditor

32. Broadly, section 49J of the Act, together with GPS 310, requires the appointed auditor to:
- (a) conduct an audit of the yearly statutory accounts of the insurer and provide an auditor's report to the insurer which contains the auditor's opinion in relation to the audit (refer paragraphs 40-51 and Appendix 1);
 - (b) undertake a review and prepare a report, on an annual basis, which contains the auditor's review conclusions providing limited assurance in relation to the matters specified in Attachment A to GPS 310 (refer paragraphs 56-108 and Appendix 3);
 - (c) undertake a special purpose engagement, when requested by APRA in writing, of specific matters relating to the insurer's operations, risk management or financial affairs, and to prepare a report in respect of that engagement (refer paragraphs 109-121); and
 - (d) perform such other work considered necessary to fulfil the auditor's responsibilities under the Prudential Standards.

Group Auditor

33. GPS 310 Attachment B requires on an annual basis, the Group Auditor to:
- (a) conduct a review of the group's annual accounts and provide a report to the parent entity of the insurance group which contains the Group Auditor's conclusion in relation to the limited assurance review (refer paragraphs 52-55 and Appendix 2);
 - (b) undertake a review and prepare a report which contains the Group Auditor's conclusions providing limited assurance in relation to the matters specified in Attachment C to GPS 310 (refer paragraphs 56-108 and Appendix 3);
 - (c) undertake a special purpose engagement, when requested by APRA in writing, of specific matters relating to the insurance group's operations, risk management or financial affairs, and to prepare a report in respect of that engagement (refer paragraphs 109-121); and
 - (d) perform such other work considered necessary to fulfil the auditor's responsibilities under the Prudential Standards.

Agreeing the Terms of Engagement

34. The Appointed Auditor and the insurer agree on the terms of the engagement. In the case of an insurance group, the terms of engagement is between the Group Auditor and the parent entity of the insurance group. Such terms may be detailed in an engagement letter or other suitable form of written contract.
35. The requirement to audit the yearly statutory accounts of the insurer or review the annual accounts of the insurance group is in addition to the audit or review of financial reports required under the *Corporations Act 2001* and is to be treated by the Appointed or Group Auditor as a separate audit engagement. In addition to the requirements of ASA 800, the Appointed or Group Auditor has regard to ASA 210 *Agreeing the Terms of Audit Engagements* when agreeing on the terms of the engagement with the insurer and/or insurance group.
36. The audit or review of financial reports required under the *Corporations Act 2001* and the audit of the yearly statutory accounts or review of the annual accounts required under the Act are directed towards obtaining sufficient evidence to form an opinion or conclusion under the appropriate legislation. These audit and review procedures are not designed to enable the Appointed or Group Auditor to conclude on matters specified in paragraph 56 of this Guidance Statement. The requirement for an Appointed or Group Auditor to provide a review report under GPS 310 therefore constitutes a separate engagement with separate reporting

requirements. The Appointed or Group Auditor has regard to ASAE 3000¹⁴ when agreeing on the terms of the review engagement.

37. It is important that those charged with governance of the insurer or insurance group are aware of the Appointed or Group Auditor's obligations referred to in GPS 310 and of the implications for confidentiality. It is important also that the engagement letter includes a reference to the responsibility of those charged with governance of the insurer or insurance group for establishing and maintaining effective internal control.
38. The engagement letter explains that any special purpose engagement of specific matters relating to the insurer's or insurance group'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).
39. Example engagement letters to accommodate APRA reporting requirements as per GPS 310 are set out in Appendix 4: General Insurer and Appendix 5: Level 2 Insurance Group of this Guidance Statement.

Report on Audit of Yearly Statutory Accounts by the Appointed Auditor

Reporting Requirements

40. Section 49J of the Act, and GPS 310, include a requirement for the Appointed Auditor to audit the yearly statutory accounts of the insurer and to provide an auditor's report to the insurer in relation to those accounts. GPS 310 requires the auditor's report to include the auditor's opinion on whether the yearly statutory accounts of the insurer present a true and fair view of the results of the insurer's operations for the year and financial position at year end, in accordance with:
 - (a) the provisions of the Act and APRA Prudential Standards, the Collection of Data Act and APRA Reporting Standards; and
 - (b) to the extent that they do not contain any requirements that conflict with the aforementioned, Australian Accounting Standards and other mandatory professional reporting requirements in Australia; and
 - (c) where the Appointed Auditor is unable to provide an auditor's opinion as above, the opinion must be modified and include details of the relevant matters¹⁵.
41. Under GPS 310, the auditor's report, addressed to those charged with governance of the insurer, must be prepared on an annual basis. Furthermore, it must be submitted to the insurer within such time as to enable the insurer to provide the report to APRA on or before the day that the insurer's yearly statutory accounts are required to be submitted to APRA in accordance with *Reporting Standard GRS 001 Reporting Requirements*¹⁶.
42. In preparing this auditor's report, APRA requires the Appointed Auditor to have regard to relevant AUASB Standards and Guidance Statements, to the extent that these pronouncements are not inconsistent with the requirements of GPS 310.
43. ASA 800 establishes requirements and provides explanatory material in relation to the audit of special purpose financial reports.

Format of Reporting Requirements

44. An illustrative example of an auditor's report on the yearly statutory accounts of an insurer can be found in Appendix 1.

¹⁴ Reference to Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements*, may provide useful guidance when agreeing the terms of the review engagement.

¹⁵ Modifying an auditor's opinion is a matter for auditor judgement. However, GPS 310 lists the following examples of matters to be included: accounting records that have not been kept appropriately, transactions that appear irregular or that have not been recorded accurately or properly, requests for information and explanations that have not been met, or aspects of the accounts that do not represent a true and fair view of the transactions and financial position.

¹⁶ Refer GRS 001 for specific requirements in relation to reporting periods.

Matters to Consider in Planning and Conducting the Audit

45. The Appointed Auditor considers materiality in providing the auditor's report and in reporting exceptions. In considering materiality, the Appointed Auditor exercises professional judgement, having regard to the requirements and guidance provided in ASA 320 *Materiality in Planning and Performing an Audit*. Australian Accounting Standard AASB 1031 *Materiality* may provide further useful guidance. In the context of APRA's reporting requirements, the insurer's Prudential Capital Requirement (PCR) as prescribed in Prudential Standard GPS 110 *Capital Adequacy*, is an important consideration with respect to materiality. However, the Appointed Auditor may need to consider whether an alternative base (such as profit, assets or revenue) is more appropriate.
46. In accordance with ASA 315 *Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and its Environment*, the Appointed Auditor performs risk assessment procedures and related activities to obtain an understanding of the insurer and its environment, including the entity's internal control. The PCR of an insurer is intended to take account of the full range of risks to which an insurer is exposed. The PCR for an insurer is determined under GPS 110 *Capital Adequacy* and includes but is not limited to consideration of the following:
- (a) the Insurance Risk Charge (IRC)
 - (b) the Insurance Concentration Risk Charge (ICRC)
 - (c) the Asset Risk Charge (ARC)
 - (d) the Asset Concentration Risk Charge (ACRC)
 - (e) the Operational Risk Charge (ORC)
47. In identifying and assessing the risks of material misstatement, the Appointed Auditor may need to consider the use of accounting estimates in the calculation of the insurer's PCR under ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and evaluate the degree of estimation uncertainty associated with any accounting estimates.
48. The degree of estimation uncertainty associated with an accounting estimate may be influenced by factors such as:
- The extent to which the accounting estimate depends on judgement.
 - The sensitivity of the accounting estimate to changes in assumptions.
 - The existence of recognised measurement techniques that may mitigate the estimation uncertainty (though the subjectivity of the assumptions used as inputs may nevertheless give rise to estimation uncertainty).
 - The length of the forecast period, and the relevance of data drawn from past events to forecast future events.
 - The availability of reliable data from external sources.
 - The extent to which the accounting estimate is based on observable or unobservable inputs.
- The degree of estimation uncertainty associated with an accounting estimate may influence the estimate's susceptibility to bias.
49. Matters the Appointed Auditor considers in assessing the risks of material misstatement in an accounting estimate may also include:
- The actual or expected magnitude of an accounting estimate.

- The recorded amount of the accounting estimate (that is, management’s point estimate) in relation to the amount expected by the auditor to be recorded.
- Management’s documentation of the judgements involved in estimates, for example, assumptions, model risk and understanding and data quality.
- Outcomes of the sensitivity analysis performed on the assumptions by management.
- Adequacy and outcomes of the process adopted by the insurer in determining the PCR are appropriate as they relate to the insurer as a whole.
- Complexities and disclosures required for each component of risk under the insurer’s PCR calculation.
- Whether the models developed by management are using recognised measurement techniques and are independently reviewed and approved by appropriate personnel or an external expert.
- Reliance on and use of internally developed or externally sourced catastrophe models to estimate loss scenarios arising from different catastrophe events.
- Whether relevant and reliable controls are in place around the modelling process and the protection of model integrity.
- Whether management has used an expert in making the accounting estimate.
- Outcomes of the Appointed Actuary’s review and comment on the adequacy of the insurer’s ICRC calculation in its Financial Condition Report (FCR).
- Outcomes of the review of prior period accounting estimates.

The Appointed Auditor needs to consider the above factors and their impact on the audit approach and to use professional judgement in forming a view as to whether the accounting estimates are reliable.

50. In addressing the risks and accounting estimates associated with each of the areas in paragraph 46, the Appointed Auditor may need to consider performing further substantive procedures to respond to significant risks associated with estimation uncertainty.
51. The auditor uses professional judgement to assess whether there is sufficient evidence available to enable the auditor to form an opinion in relation to accounting estimates.

Report on Review of Group Annual Accounts by the Group Auditor

Reporting Requirements

52. GPS 310 includes a requirement for the Group Auditor to review the annual accounts of the insurance group and to provide an auditor’s review report to the parent entity in relation to those annual accounts. GPS 310 requires the auditor’s review report to include the auditor’s conclusion on whether anything has come to the auditor’s attention that causes the Group Auditor to believe the annual accounts do not present a true and fair view of the results of the insurance group’s operations for the year and financial position at year end, in accordance with:
- (a) the provisions of the Act and APRA Prudential Standards, the Collection of Data Act and APRA Reporting Standards; and
 - (b) to the extent that they do not contain any requirements that conflict with the aforementioned, Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

- (c) GPS 310, where the Group Auditor is unable to provide an auditor's conclusion as above, the conclusion must be modified and include details of the relevant matters¹⁷.
53. Under GPS 310, the auditor's review report, addressed to those charged with governance of the group, must be prepared on an annual basis. Furthermore, it must be submitted to the parent entity of the insurance group within such time as to enable the parent entity to provide the report to APRA on or before the day that the group's annual accounts are required to be submitted to APRA in accordance with Reporting Standard GRS 001 *Reporting Requirements*¹⁸.
54. In preparing this auditor's review report, APRA requires the Group Auditor to have regard to relevant AUASB Standards and Guidance Statements, to the extent that these pronouncements are not inconsistent with the requirements of GPS 310.

Format of Reporting Requirements

55. An illustrative example of an auditor's review report on the annual accounts of an insurance group can be found in Appendix 2.

Annual Prudential Review Report

Reporting Requirements (GPS 310: Attachment A – General Insurer or Attachment C – Insurance Group)

56. In accordance with GPS 310, the Appointed and Group Auditor are required to perform a review and provide the insurer or the parent entity of the insurance group with a report specifying the Appointed or Group Auditor's review conclusions, namely whether:
- (a) their existing systems, procedures and controls, that are kept up to date, which address the insurer or the insurance group's compliance with all applicable Prudential Requirements;
 - (b) the insurer's or the insurance group's systems, procedures and controls relating to actuarial data integrity and financial reporting risks¹⁹ are adequate and effective;
 - (c) the insurer or the insurance group has complied, in all significant respects, with its RMS and REMS;
 - (d) the insurer or the insurance group has systems, procedures and controls in place to ensure that reliable statistical and financial data are provided to APRA in the quarterly or semi-annual returns required by APRA Reporting Standards; and
 - (e) there are matters which have come to the Appointed or Group Auditor's attention which will, or are likely to, affect adversely the interests of policyholders of the insurer or the insurance group.
57. Where the Appointed or Group Auditor identifies instances of non-compliance with Prudential Requirements during the course of reviewing the insurer's systems, procedures and controls, GPS 310 requires the review report to include details of these matters²⁰. Refer to *Part E* of the Prudential Review Report in Appendix 3.
58. In accordance with GPS 310, the review report is to be on an annual basis and to cover the same period as the yearly statutory accounts and annual accounts, unless other arrangements between APRA and either the insurer or the insurance group and/or the Appointed or Group Auditor apply. The review report is to be issued on a timely basis so as to enable the insurer or the insurance group to submit the report to APRA on or before the day that the yearly

¹⁷ Modifying an auditor's opinion is a matter for auditor judgement. However, GPS 310 lists the following examples of matters to be included: accounting records that have not been kept appropriately, transactions that appear irregular or that have not been recorded accurately or properly, requests for information and explanations that have not been met, or aspects of the accounts that do not represent a true and fair view of the transactions and financial position.

¹⁸ Refer GRS 001 for specific requirements in relation to reporting periods.

¹⁹ The risks that incorrect source data will be used in completing returns to APRA in accordance with the *Collection of Data Act*.

²⁰ Whether or not the insurer and/or insurance group has reported the non-compliance to APRA.

statutory accounts or annual accounts are required to be submitted to APRA in accordance with APRA Reporting Standards²¹.

59. The prudential review report is required to be addressed to those charged with governance of the insurer or the insurance group and must be based on a limited assurance engagement. The report is to indicate that it is limited to the use of the insurer or insurance group and APRA. In preparing the report, APRA requires the Appointed and Group Auditor to have regard to AUASB Standards and Guidance Statements, to the extent that these pronouncements are not inconsistent with the requirements of GPS 310.
60. The Appointed or Group Auditor undertakes the review engagement in accordance with ASAE 3000²².
61. The Appointed or Group Auditor considers materiality in providing reports as per GPS 310 and in the reporting of exceptions (refer paragraphs 73 to 78).
62. Where the Appointed or Group Auditor determines it necessary to issue a modified review conclusion because of, for example, a significant breach of the RMS and the REMS or because of the existence of a material weakness in systems, procedures and controls reviewed, the Appointed or Group Auditor has regard to the requirements of, and guidance provided in, AUASB Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs), as appropriate.
63. Where the Appointed or Group Auditor becomes aware of material weaknesses in internal controls, compliance errors or irregularities highlighted during the review, the Appointed or Group Auditor reports these instances to an appropriate level of management of the insurer or parent entity on a timely basis²³.
64. Prior to issuing the Appointed or Group Auditor's review report, the Appointed or Group Auditor obtains a written representation from the insurer or the insurance group's management²⁴ which contains its assertions, for example, that the insurer or the insurance group has complied with its RMS and REMS during the period under review and that the Appointed or Group Auditor has been kept informed fully of all APRA's Prudential Requirements applicable to the insurer or the insurance group. However, representations by management cannot be a substitute for other audit evidence that the Appointed or Group Auditor could reasonably expect to be available.

Format of Reporting Requirements

65. An illustrative example of an annual Prudential Review Report, prepared by the Appointed or Group Auditor in compliance with APRA annual reporting requirements, is set out in Appendix 3.

Matters to Consider in Planning and Conducting the Review

66. To assist in the effective and efficient operation of the reporting process, there is a need to avoid misunderstanding and to clarify what is required or can be achieved in providing the reports as per GPS 310. There is furthermore a need to avoid excessive or unwarranted work that is not cost beneficial to the regulatory process.
67. In a limited assurance engagement, the assurance practitioner's conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, matter(s) have come to the practitioner's attention to cause them to believe the subject matter information is not materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is planned to obtain assurance that is, in the practitioner's professional judgement, meaningful.

²¹ Refer to GRS 001 for specific requirements in relation to reporting periods.

²² AUASB Standards on Review Engagements (ASREs), Standards on Assurance Engagements (ASAEs) and this Guidance Statement may provide helpful information to assist the auditor in conducting the review.

²³ Reference to Auditing Standard ASA 260 *Communication with Those Charged With Governance* may provide useful guidance in this regard.

²⁴ Matters for consideration and an illustrative example of a representation letter relevant to an audit engagement are contained in Auditing Standard ASA 580 *Representations*, which may be helpful in determining representations applicable to the review engagement.

68. For the purpose of expressing a conclusion in the review report, the Appointed or Group Auditor, through limited procedures, obtains sufficient appropriate evidence to support the conclusion. These limited procedures comprise primarily of enquiries of the insurer's or insurance group's staff and analytical procedures. The nature, timing and extent of procedures deemed necessary by the Appointed or Group Auditor to reduce assurance engagement risk to an acceptable level, are a matter for the Appointed or Group Auditor's professional judgement, taking into consideration the specific engagement circumstances.
69. The Appointed or Group Auditor is not required by GPS 310 to extend the scope of the review engagement in order to report to APRA matters which will, or are likely to, affect adversely the interests of policyholders of the insurer or insurance group, or instances in which the insurer or insurance group has not complied with all aspects of relevant Prudential Requirements, or in relation to the Appointed or Group Auditor's obligations as regards non-routine reporting requirements under sections 49A and 49B of the Act. Although there is no requirement for the Appointed or Group Auditor to perform any specific procedures to identify such matters required to be reported to APRA, during the course of the review engagement, the Appointed or Group Auditor exercises professional judgement and considers whether additional procedures are necessary in relation to these matters.

Inherent Limitations of the Review

70. 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 reasonable, but not absolute, level of assurance on the truth and fairness of financial information, the auditor uses more extensive audit procedures than in a review. Review procedures 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.
71. There are inherent limitations in any internal control structure. Furthermore, 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 insurer's or insurance group's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, impact on the effective operation of the insurer's or insurance group's specific control procedures.
72. Projections of any evaluation of internal control procedures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions after the review reports are signed, or that the degree of compliance may deteriorate.

Materiality

73. In accordance with ASAE 3000, the Appointed or Group Auditor considers materiality when:
- (a) determining the nature, timing and extent of review procedures;
 - (b) considering the effect of identified weaknesses in systems, procedures and controls designed to address compliance with Prudential Requirements and to enable the insurer or insurance group to report reliable financial and statistical information to APRA;
 - (c) evaluating the significance of identified breaches of the RMS and the REMS;
 - (d) reporting instances of non-compliance with Prudential Requirements identified during the course of the review of the insurer's or insurance group's systems, procedures and controls; and
 - (e) reporting matters that will, or are likely to, affect adversely the interests of the policyholders of the insurer or insurance group.
74. Materiality is to be addressed in the context of the insurer's or insurance group's objectives relevant to the particular area of activity being examined (see paragraph 56) and whether the internal controls will reduce to an acceptable level the risks that threaten achievement of those

- objectives. These objectives are developed having regard to the protection of the interests of the policyholders and prospective policyholders of the insurer or insurance group.
75. In addition to the guidance provided in ASAE 3000 and other relevant ASAEs, the Appointed and Group Auditor may find ASA 320 helpful when assessing materiality. However, it is not possible to give a definitive view on what may constitute, for example, a material breach of Prudential Requirements or a material control weakness. The Appointed and Group Auditor exercises professional judgement in considering materiality appropriate to the insurer's or insurance group's circumstances, having regard to their obligations, the purpose and terms of the specific engagement, together with the size, complexity and nature of their activities.
76. AASB 1031 may provide useful guidance to the Appointed and Group Auditor also. Matters likely to adversely affect the interests of policyholders are related generally to solvency and going concern assumptions. In the context of APRA's reporting requirements, the insurer's PCR is therefore an important consideration with respect to materiality. However, the auditor needs to consider whether alternative bases such as profit, assets or revenue may be more appropriate.
77. For the purpose of paragraphs 93-101, the significance of a matter is to be judged by the Appointed or Group Auditor in the context in which it is being considered, taking into account both quantitative and qualitative factors. This may, for example, include consideration of the significance in terms of the potential impact of the non-compliance with the RMS and the REMS rather than the actual impact. Where the Appointed or Group Auditor considers that non-compliance potentially could be significant to the insurer or insurance group as a whole and/or to policyholder interests, or where the matter may be considered as important by APRA in performing its functions under the Act, then that is a matter to be reported to APRA.
78. Reference to section 49A(7)²⁵ of the Act, which defines the term 'significant' in the context of matters to be notified to APRA by the Appointed or Group Auditor (as part of the auditor's non-routine reporting requirements – refer paragraph 124), provides helpful guidance when considering the significance of matters in relation to the insurer's RMS and REMS.

Internal Audit

79. CPS 510 requires an insurer or insurance group²⁶ to have in place an independent and adequately resourced internal audit function²⁷. CPS 510 and APRA Prudential Practice Guide GPG 200 *Risk Management* set out the requirements and provide guidance to insurers and insurance groups in relation to internal audit.
80. GPS 220 requires an insurer's or insurance group's RMF to be reviewed by operationally independent, appropriately trained and competent staff. Commonly, this evaluation of the adequacy and effectiveness of the RMF, which includes a review of the insurer's or insurance group's risk management function (or role), RMS and internal control system, will be undertaken by the internal audit function.
81. Auditing Standard ASA 610 *Using the Work of Internal Auditors*, sets out the requirements and provides guidance to the auditor in considering the activities of the internal audit function and evaluating the effect, if any, on audit procedures.

Existence of Controls Addressing Compliance with Prudential Requirements

82. The Appointed or Group Auditor is required to express a conclusion as to whether anything has come to their attention that causes them to believe that the insurer or insurance group does not have systems, procedures and controls in place, that are kept up-to-date, to address the insurer's or insurance group's compliance with all applicable Prudential Requirements (refer *Part A* of the Prudential Review Report as per Appendix 3). Items included under 'Prudential Requirements' are listed in paragraph 16 of this Guidance Statement.
83. The Appointed or Group Auditor reviews whether the high level controls over systems and procedures pertinent to the Prudential Requirements, as documented in the RMS and the

²⁵ Section 49A(7) of the Act is effective from 1 January 2008.

²⁶ This will include a foreign insurer in relation to its Australian business.

²⁷ Under CPS 510, APRA may approve alternative arrangements where APRA is satisfied that they will achieve the same objectives.

REMS, exist and whether the insurer or insurance group has in place a periodic review process to ensure that relevant systems, procedures and controls remain up-to-date at all times. Existence is addressed normally when evaluating the design of controls during the planning phase of the review.

84. As part of the review, the Appointed or Group Auditor obtains an understanding of the insurer's or insurance group's compliance framework, which may include the following key elements:
- Procedures for identifying and updating compliance obligations.
 - Staff training and awareness programs.
 - Procedures for assessing the impact of compliance obligations on the insurer's or insurance group's key business activities.
 - Controls embedded within key business processes to ensure compliance with obligations.
 - Processes to identify and monitor the implementation of further mitigating actions required to ensure that compliance obligations are met.
 - A monitoring plan to test key compliance controls on a periodic basis and to report exceptions.
 - Procedures for identifying, assessing and reporting compliance incidents and breaches.
 - Periodic sign off by management as to compliance with obligations.
 - A compliance governance structure that establishes responsibility for the oversight of compliance control activities with those charged with governance, typically a Board Audit, Risk Management or Compliance Committee.
85. Insurers and insurance groups 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 insurers or insurance groups comply with all Prudential Standards on a continuous basis.
86. As part of the Appointed or Group Auditor's review of whether systems, procedures and controls exist to address compliance with the relevant statutory and regulatory requirements and conditions on the insurer's or insurance group's authority to carry on insurance business, or other conditions imposed by APRA in relation to their operations, including bilateral APRA-insurer requirements and conditions, the Appointed or Group Auditor makes enquiries of the insurer or group management as to (but not limited to):
- The nature of authorisation to carry on general insurance business under section 12 of the Act.
 - Conditions or changes in conditions imposed by APRA on the section 12 authorisation.
 - Exemption granted by APRA to the insurer or insurance group in relation to specific sections of the Act.
 - Directions by APRA to the insurer or insurance group under the Act in relation to compliance with a Prudential Standard where there has been a breach of the Standard or is likely to be a breach.
 - Directions issued by APRA to the insurer or insurance group under section 62 of the Act in the context of an investigation.

- Any variations and/or exclusions exercised by APRA under the Prudential Standards.
 - Formal correspondence issued to an insurer or insurance group in relation to an APRA prudential visit/review.
87. As part of the review, the Appointed or Group Auditor performs review procedures that they consider necessary in relation to the insurer's or insurance group's systems, procedures and controls which address compliance with all applicable Prudential Requirements, including but not limited to the following sections of the Act:
- Authorisation under section 12 of the Act²⁸.
 - Conditions imposed under section 13 of the Act.
 - Directions issued by APRA pursuant to sections 7, 35, 49L, 49Q and 62 of the Act.
 - Other specified matter(s).
88. Conditions on the insurer's or insurance group's authority to carry on insurance business may vary from one insurer or insurance group to another and the Appointed or Group Auditor makes enquiries with respect to conditions imposed on the insurer or insurance group by APRA.
89. In relation to Prudential Requirements specified in writing by APRA, the Appointed or Group Auditor of an insurer or insurance group limits the review to the Prudential Requirements specified in writing by APRA of which they are aware.
90. While the Appointed or Group Auditor is not expected to review the design or operating effectiveness of control procedures, during the course of the review, they may become aware of material control weaknesses which the Appointed or Group Auditor reports to an appropriate level of management of the insurer or insurance group.

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

91. The Appointed or Group Auditor is required to express a conclusion as to whether anything has come to their attention that causes them to believe that the insurer's or insurance group's systems, procedures and controls relating to actuarial data integrity and financial reporting risks²⁹ are not adequate and effective to address the risk of material error in the APRA returns. Refer *Part B* of the Prudential Review Report as per Appendix 3.
92. The Appointed or Group Auditor reviews whether systems, procedures and controls in place are adequate and operating effectively to ensure that source data used for actuarial valuations and completion of returns to APRA in accordance with the requirements of the Collection of Data Act, are accurate, complete, consistent with the accounting records of the insurer or insurance group, and a true representation of the transactions for the year and the financial position of the insurer or insurance group. The Appointed or Group 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.

Compliance with RMS and REMS

93. The Appointed or Group Auditor is required to express a conclusion as to whether anything has come to their attention that causes them to believe that the insurer or insurance group has not complied, in all significant respects (refer paragraphs 77-78), with its RMS and REMS³⁰. Refer *Part C* of the Prudential Review Report as per Appendix 3.
94. The objective of the Appointed or Group Auditor's review of the insurer's or insurance group's compliance with its RMS and REMS is whether they have complied substantially with

²⁸ Or in the case of an authorised non-operating holding company (NOHC), section 18 of the Act.

²⁹ 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*.

³⁰ Refer to paragraphs 22-24 and Appendix 6 for a description of, and Prudential Requirements in relation to, the RMS and REMS documents.

key policies, procedures, structures and controls documented in the RMS and the REMS for the period under review. There is no expectation that the Appointed or Group Auditor expresses assurance on the adequacy of the RMS and the REMS.

95. The Appointed or Group Auditor's review of compliance with the RMS and the REMS may include the following procedures:
- Obtaining an understanding of the RMF and the process to identify material risks.
 - Reviewing the relevant RMS and the REMS to confirm that they are up-to-date and approved by the insurer or insurance group.
 - Reviewing the processes (including monitoring and reporting procedures) the insurer or insurance group has in place to ensure ongoing compliance with the RMS and the REMS. The Appointed or Group Auditor may find reference to paragraph 84 useful in this regard. It identifies some of the key elements that may form part of an insurer's or insurance group's compliance framework.
 - Reviewing the evidence supporting the insurer's or insurance group's attestation in the APRA Annual Return in relation to compliance with the RMS and the REMS.
96. As part of the Appointed or Group Auditor's review, they may consider the measures in place which relate to the insurer's or insurance group's monitoring of, and reporting on, specific matters incorporated into the RMS and the REMS. Such a review may include the following matters:
- Whether breaches of the RMS and the REMS have been detected and reported by the monitoring systems. When breaches have been detected, whether such breaches are significant either in themselves or, when they are of a recurring nature and have not been rectified, whether their cumulative effect renders them to be a significant non-compliance.
 - Identifying systems which they use to ensure that business units and staff comply with the measures in the RMS and the REMS on a day-to-day basis.
97. As part of the review of compliance with the RMS and the REMS, the Appointed or Group Auditor may seek the following types of information and documentation:
- Copies of the RMS and the REMS that applied during the period covered by the review.
 - Details of changes to the RMS and the REMS and related policies and procedures and the reasons for the revisions.
 - Documentation that identifies and describes the policies, procedures and structures that are in place to manage identified risks and representations that such policies, procedures and structures have been complied with.
 - Minutes of the meetings of those charged with governance and sub-committees responsible for monitoring compliance with aspects of the RMS and the REMS.
 - Internal and external incident and breach reports, breach and complaints registers and follow up action taken to the extent that recorded items may indicate a failure to comply with the RMS and the REMS.
 - Internal audit reports.
 - Certifications made by the insurer or insurance group and relevant supporting documentation to substantiate compliance with the RMS and the REMS during the reporting period.
 - Other supporting evidence to confirm that the controls identified in the RMS and the REMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each insurer.

98. There are practical limitations in requiring the Appointed or Group Auditor to express a conclusion as to the insurer's or insurance group's compliance at all times with the RMS and the REMS during the review period. However, the Appointed or Group Auditor performs review procedures to the extent that the Appointed or Group Auditor considers to be appropriate in order to obtain sufficient appropriate evidence as to the insurer's or insurance group's compliance with the written descriptions within the RMS and the REMS throughout the period under review.
99. While the Appointed or Group Auditor is not expected to review the adequacy of the RMS and the REMS, during the course of the review the Appointed or Group Auditor may become aware of significant deficiencies in the RMS and the REMS which they report to an appropriate level of the insurer's or insurance group's management.
100. The auditor lists any key strategies included in the RMS and the REMS provided to APRA by the insurer or insurance group, but not reviewed by them as a consequence of a circumstance that makes the review impractical (for example, any period for which the strategy has not been in place).
101. The Group Auditor of an insurance group should also be aware of Attachment D to GPS 220 in so far as it may relate to adjustments to prudential requirements for insurance groups.

Controls in place to ensure Reliability of Statistical and Financial Data

102. The Appointed Auditor of an insurer, or the Group Auditor of the insurance group 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 insurer or insurance group does not have systems, procedures and controls in place to ensure that reliable statistical and financial data are provided by the insurer or insurance group in Quarterly or Semi-Annual Returns to APRA, as required by APRA Reporting Standards. Refer *Part D* of the Prudential Review Report, as per Appendix 3.
103. Interpretation of the word 'reliable' in the context of paragraph 102, requires mutual understanding in that it has practical limitations in the present circumstances. For many insurers or insurance groups, it is at reporting period-end only that the insurer's or insurance group's accounts, including all the appropriate adjustments for accruals, prepayments, provisioning and valuations, are prepared. Some insurers or insurance groups report their results half-yearly also, and therefore would incorporate the necessary adjustments, but generally an audit is not carried out on these balances unless the insurer or insurance group requires an audit rather than a review of the half-year financial report.
104. APRA expects review procedures to include limited tests of control in relation to the compilation of the required statistical and financial information included in the APRA Quarterly or Semi-Annual Returns, to the extent the Appointed or Group Auditor considers appropriate. This involves, at a minimum, test checking from the Quarterly or Semi-Annual Returns to the insurer's or insurance group's general ledger or appropriate sub-ledger or sub-system but does not extend to auditing the financial or statistical information presented in the Quarterly or Semi-Annual Returns.

Policyholders' Interests

105. The Appointed or Group Auditor is required to express a conclusion as to whether anything has come to their attention that causes the Appointed or Group Auditor to believe that there are matters which, in the Appointed or Group Auditor's opinion, will, or are likely to, affect adversely the interests of the policyholders³¹ of the insurer or insurance group. Matters likely to adversely affect the interests of the policyholders are related generally to solvency issues and going concern assumptions, for example, the insurer's or insurance group's compliance with PCR as per Prudential Standard GPS 110 *Capital Adequacy*. Refer *Part E* of the Prudential Review Report, as per Appendix 3.

³¹ Reference to policyholders relates to a class of policyholders rather than to individual policyholders.

106. The Appointed or Group Auditor will report to APRA on the basis of information obtained during the course of the Appointed Auditor's financial report audit under the *Corporations Act 2001*, the audit of the yearly statutory accounts or the Group Auditor's review of the annual accounts prepared in accordance with the Act, additional review procedures undertaken for APRA reporting purposes, and current knowledge of the insurer's or insurance group's affairs at the time of issuing the report.
107. The Appointed Auditor of a foreign insurer is unlikely to have complete knowledge of the overseas operations of the parent or related entities of the foreign insurer. The Appointed Auditor may not have had responsibility for the financial report audit of the foreign insurer. As a result, the Appointed Auditor is limited in the level of information that can be provided with respect to foreign insurer policyholders' interests.
108. Where a situation described at paragraph 107 exists, the Appointed Auditor of a foreign insurer is not expected to expand the scope of the review engagement in order to meet the reporting requirements of GPS 310, or to be aware of all material issues or events that are outside the Australian operations of the foreign insurer. Rather, in meeting APRA's reporting requirements, the Appointed Auditor reports the scope of any financial report audit work performed with respect to the foreign insurer and, where the Appointed Auditor has conducted no financial report audit, reports only on matters that come to the Appointed Auditor's attention during the course of the Appointed Auditor's work in relation to APRA's additional reporting requirements.

Special Purpose Engagements

Reporting Requirements

109. In addition to APRA's annual prudential reporting requirements, the Appointed or Group Auditor may be requested by the insurer or insurance group, under GPS 310, to undertake a special purpose engagement in relation to matters specified by APRA in writing, relating to the insurer's or insurance group's operations, risk management or financial affairs, and to prepare a report in respect of that engagement³².
110. APRA requires such special purpose engagements to be completed in accordance with relevant AUASB Standards and Guidance Statements, to the extent that these pronouncements are not inconsistent with the requirements of GPS 310.
111. Under GPS 310, the Appointed or Group Auditor's special purpose engagement report is required to be submitted to APRA and the insurer or insurance group simultaneously, within three months of the engagement being commissioned, unless APRA grants an extension of time in writing.
112. APRA may meet with the insurer and its Appointed Auditor or the insurance group and the Group Auditor, periodically to discuss the auditor's report and to agree on the area(s) to be examined. Timing of these trilateral meetings is negotiated with the insurer and the Appointed Auditor or the insurance group and the Group Auditor, at the initiative of APRA. The area(s) to be examined may vary among insurers or insurance groups.
113. The Appointed or Group Auditor may be requested to perform any of the following types of engagements:
- (a) an audit (reasonable assurance);
 - (b) a review (limited assurance); and/or
 - (c) agreed-upon procedures (no assurance).
114. It must be appreciated that the Appointed Auditor of an insurer or the Group Auditor of an insurance group, does not evaluate all aspects of the internal control structure and systems of controls when performing an audit or review of financial reports required under the

³² Furthermore, in accordance with Prudential Standard CPS 231 *Outsourcing*, APRA may request the auditor of the insurer to provide an assessment of the risk management processes in place with respect to an arrangement to outsource a material business activity.

Corporations Act 2001 and is therefore not in a position to express an opinion on the adequacy of the systems of accounting and internal control taken as a whole.

115. The APRA requirement for an Appointed or Group Auditor to undertake a special purpose engagement in a selected area of the insurer's or insurance group's operations, constitutes a separate engagement and reporting. The Appointed or Group Auditor undertakes the engagement in accordance with ASAE 3000 and having due regard to relevant Auditing Standards (ASAs), ASREs, ASAEs and Standards on Related Services (ASRSs).
116. Due to the nature of audit testing and review procedures, and other inherent limitations of audits and reviews, together with the inherent limitations of all control systems, there is a possibility that a properly planned and executed audit or review will not detect all deficiencies in relation to the insurer's or insurance group's operations, risk management or financial affairs.
117. The extent of reporting matters that could be improved depends on the Appointed or Group Auditor's judgement. Materiality is to be addressed in the context of the insurer's or insurance group's objectives relevant to the particular area of activity being examined and whether the internal controls will reduce to an acceptable level the risks that threaten achievement of those objectives. Minor omissions, weaknesses and failures are not required to be reported upon. Matters that are commented on are those which, in the view of the Appointed or Group Auditor, indicate individually or collectively that the objectives of the system may not be achieved. Materiality is addressed in paragraphs 73-78.
118. The report is to be restricted to the parties that have agreed to the terms of the special purpose engagement, namely those charged with governance and management of the insurer or insurance group, and APRA.

Format of Reporting Requirements

119. The format of the special purpose engagement report will vary depending on the type of engagement; that is, an audit (reasonable assurance), a review (limited assurance) or agreed-upon procedures (no assurance), as well as the topic and the findings. The Appointed or Group Auditor has regard to the requirements, guidance and illustrative examples of reports provided in ASAs, ASREs, ASAEs and ASRSs, as applicable, when preparing the special purpose engagement report.

Terms of Engagement

120. Following the determination by APRA of the specific area to be examined, the Appointed or Group Auditor, APRA and the insurer or insurance group agree on the terms of the engagement. It is in the interests of both the insurer or insurance group and the Appointed or Group Auditor that an engagement letter is compiled to help avoid misunderstandings with respect to the engagement. When agreeing on the terms of the engagement, the Appointed or Group Auditor has regard to the requirements of ASAs, ASREs, ASAEs and ASRSs, as applicable.
121. 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 insurer's or insurance group's operations, risk management or financial affairs to be the subject of the engagement.
 - APRA is to identify clearly whether the engagement is an audit, review or agreed-upon procedures engagement.
 - The Appointed or Group Auditor, APRA and the insurer or insurance group are to agree on the objectives of the engagement, key features and criteria of the area to be examined, and the period to be covered by the engagement.
 - For an agreed-upon procedures engagement, the Appointed or Group Auditor, APRA and the insurer or insurance group are to agree on the nature and extent of procedures to be performed.

Non-routine Reporting Requirements

122. It is important that the Appointed or Group Auditor of an insurer, an authorised non-operating holding company (NOHC), or a subsidiary of an insurer or authorised NOHC, understands the additional responsibilities in relation to non-routine reporting to APRA, imposed under sections 49, 49A and 49B of the Act.
123. Under section 49 of the Act, APRA may give written notice to a person who is, or who has been, the Appointed or Group Auditor of either an insurer, an authorised NOHC, or a subsidiary of an insurer or authorised NOHC, to provide information about such entities to APRA if APRA considers that the provision of such information will assist APRA in performing its functions under the Act.³³
124. Section 49A of the Act identifies matters of which APRA needs to be notified
- (a) immediately (for example, where an existing or proposed state of affairs may prejudice materially the interests of policyholders); and
 - (b) as soon as is practicable³⁴ (for example, where an insurer's or insurance group's failure to comply with the Prudential Standards or a condition of its authorisation is or will be significant).³⁵
125. These matters are to be reported to APRA in writing. When an Appointed or Group Auditor contravenes this section of the Act, the Appointed or Group Auditor will be guilty of an offence under the Act.
126. Section 49B of the Act provides that a person who is, or who has been, the Appointed or Group Auditor of either an insurer, an authorised NOHC or a subsidiary of an insurer or authorised NOHC, may provide information about such entities to APRA if the person considers that the provision of that information to APRA will assist APRA in performing its functions under the Act or the Collection of Data Act.
127. GPS 310 requires the Appointed or Group Auditor, in assessing whether the interests of policyholders may be prejudiced materially³⁶, to consider not only a single activity or a single deficiency in isolation, as policyholders' interests may be prejudiced materially by a number of activities or deficiencies which, although not individually material, do amount to a material threat when considered in totality.
128. In circumstances where the Appointed or Group Auditor has reasonable grounds to believe that the interests of policyholders are, or are likely to be compromised, the Appointed or Group Auditor may need to consider the whistle blowing provisions in both the Act and CPS 520.
129. GPS 310 requires matters reported to APRA by an Appointed or Group Auditor also to be reported to the insurer or insurance group to which the matter relates, unless the Appointed or Group Auditor considers that by doing so the interests of policyholders would be jeopardised, or where a situation of mistrust between an Appointed or Group Auditor and those charged with governance or senior management of the insurer or insurance group exists.
130. In relation to reporting under sections 49A and 49B of the Act, there is no requirement for the Appointed or Group Auditor of an insurer or insurance group to carry out additional work to satisfy themselves with respect to the above matters. Thus, subject to the reporting requirements as per GPS 310, the Appointed or Group Auditor is not required to extend the scope of the work to ascertain that the insurer or insurance group is complying with all aspects of all applicable Prudential Requirements. If the Appointed or Group Auditor becomes aware of any of the matters identified under sections 49A and 49B of the Act, the Appointed or Group Auditor brings the matter(s) to the attention of an appropriate level of management and

³³ To ensure that the auditor is able to comply with any such request from APRA, GPS 310 requires that all working papers and other documentation of the auditor in relation to the insurer be maintained for a period of seven years after the date of the report or certificate to which the working papers or documentation relate, as required under the *Corporations Act 2001*.

³⁴ No longer than 10 business days.

³⁵ Section 49A of the Act has been amended with effect from 1 January 2008.

³⁶ Prejudice materially is taken to be the same as affect adversely. In cases where there is doubt, the auditor may need to obtain a legal opinion. Circumstances that may affect adversely the interests of policyholders are discussed in paragraphs 105-108.

those charged with governance of the insurer or insurance group. If the response provided by the insurer or insurance group is unsatisfactory, the Appointed or Group Auditor is obliged to report the matter(s) to APRA in a timely manner, having regard to materiality as described in paragraphs 73-78.

131. Section 49C of the Act and GPS 310 include provisions to protect an Appointed or Group Auditor providing information to APRA, in good faith and without negligence, from any action, claim or demand by, or any liability to, any other person in respect of the information.

Other Reporting Responsibilities

132. CPS 510 requires all locally incorporated insurers and authorised NOHCs to have a Board Audit Committee. CPS 510 sets out the specific requirements with respect to the size, composition, responsibilities and powers of the Board Audit Committee.
133. Although the type of engagement to which this Guidance Statement relates is not in relation to the audit of a financial report under the *Corporations Act 2001*, guidance on matters of governance interest that the Appointed or Group Auditor considers communicating to the Audit Committee can be found in ASA 260 *Communication with Those Charged With Governance*³⁷.

Conformity with International Pronouncements

134. As this Guidance Statement relates to Australian legislative and regulatory requirements, there is no equivalent International Practice Statement (IPNS) to this Guidance Statement.

³⁷ In the absence of a Board Audit Committee (for a foreign insurer), the auditor will normally communicate with the senior officer outside Australia.

Appendix 1

(Ref: Para.44)

EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT ON THE GENERAL INSURER'S YEARLY STATUTORY ACCOUNTS

INDEPENDENT AUDITOR'S REPORT

To [Title of those charged with governance³⁸] of [General Insurer]

Report on the Yearly Statutory Accounts

We have audited the accompanying yearly statutory accounts, being a special purpose financial report, of [General Insurer] for the financial year ended [date]. The yearly statutory accounts comprise [specify form numbers] with the authentication code of [.....].

Responsibility of [Those Charged with Governance] for the Yearly Statutory Accounts

[Title of those charged with governance] of [General Insurer] are responsible for the preparation and fair presentation of the yearly statutory accounts and the information they contain, in accordance with the requirements of the *Insurance Act 1973*, Australian Prudential Regulation Authority (APRA) Prudential Standards, the *Financial Sector (Collection of Data) Act 2001*, and APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards (including Australian Accounting Interpretations). This responsibility also covers internal control relevant to the preparation and fair presentation of the yearly statutory accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the yearly statutory accounts based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether, in all material respects, the yearly statutory accounts present a true and fair view of the results of [General Insurer]'s operations for the year and financial position at reporting end, in accordance with the provisions of the *Insurance Act 1973*, APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. The *Insurance Act 1973* and Prudential Standards do not require the application of all Australian Accounting Standards.

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the yearly statutory accounts. The procedures selected depend on our judgement, including assessment of the risks of material misstatement of the yearly statutory accounts, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to [General Insurer]'s preparation and fair presentation of the yearly statutory accounts 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 [General Insurer]'s internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [Title of those charged with governance], 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.

³⁸ Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors for a locally incorporated insurer or senior officer outside Australia for a foreign insurer. Insert appropriate title, when prompted, throughout the report.

Independence

In conducting our audit we have, to the best of our knowledge and belief, complied with the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*.

*Opinion*³⁹

In our opinion, the yearly statutory accounts of [General Insurer], in respect of the year ended [date], present a true and fair view of the results of [General Insurer]'s operations for the year and financial position at year end, in accordance with:

- (a) the provisions of the *Insurance Act 1973*, APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001*, and APRA Reporting Standards; and
- (b) to the extent that they do not contain any requirements that conflict with the aforementioned, Australian Accounting Standards.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to the basis of preparation of the yearly statutory accounts. The yearly statutory accounts have been prepared for the purpose of fulfilling the reporting requirements of [General Insurer] under the *Insurance Act 1973*, Section 13 of the *Financial Sector (Collection of Data) Act 2001* and the Prudential Standards. We disclaim any assumption of responsibility for any reliance on this report or on the yearly statutory accounts to which it relates to any party other than the [General Insurer] 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]

³⁹ Where the auditor determines it necessary to issue a modified auditor's report on the yearly statutory accounts of an insurer, the principles contained in *ASA 705 Modifications to the Opinion in the Independent Auditor's Report* may provide useful guidance.

Appendix 2

(Ref: Para.55)

EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON THE GROUP ANNUAL ACCOUNTS

INDEPENDENT AUDITOR'S REVIEW REPORT

To [Title of those charged with governance⁴⁰] of [Level 2 Insurance Group]

Report on the Group Annual Accounts

We have reviewed the accompanying annual accounts, being a special purpose financial report, of [Level 2 Insurance Group] for the financial year ended [date]. The annual accounts comprise [specify form numbers] with the authentication code of [.....].

Responsibility of [Those Charged with Governance] for the Group Annual Accounts

[Title of those charged with governance] of [Level 2 Insurance Group] are responsible for the preparation and fair presentation of the annual accounts and the information they contain, in accordance with the requirements of the *Insurance Act 1973*, Australian Prudential Regulation Authority (APRA) Prudential Standards, the *Financial Sector (Collection of Data) Act 2001*, and APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. This responsibility also covers internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the annual accounts based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the annual accounts do not present a true and fair view, in all material respects, of the results of [Level 2 Insurance Group]'s operations for the year and financial position at reporting end, in accordance with the provisions of the *Insurance Act 1973*, APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001*, APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. The *Insurance Act 1973* and Prudential Standards do not require the application of all Australian Accounting Standards. As the auditor of [Level 2 Insurance Group], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the annual accounts consists of making enquiries, primarily of persons responsible for financial and accounting matters, 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.

Independence

In conducting our audit we have, to the best of our knowledge and belief, complied with the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*.

⁴⁰ Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors for a locally incorporated insurer or senior officer outside Australia for a foreign insurer. Insert appropriate title, when prompted, throughout the report.

*Conclusion*⁴¹

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the annual accounts of [Level 2 Insurance Group] do not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [Level 2 Insurance Group] as at [date], and its financial performance and its cash flows for the [period] ended on that date, in accordance with

- (a) the provisions of the *Insurance Act 1973*, APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001*, and APRA Reporting Standards; and
- (b) to the extent that they do not contain any requirements that conflict with the aforementioned, Australian Accounting Standards.

Basis of Preparation and Restriction on Distribution

Without modifying our conclusion, we draw attention to the basis of preparation of the annual accounts. The annual accounts have been prepared for the purpose of fulfilling the reporting requirements of [Level 2 Insurance Group] under the *Insurance Act 1973*, Section 13 of the *Financial Sector (Collection of Data) Act 2001*, and the Prudential Standards. We disclaim any assumption of responsibility for any reliance on this report or on the annual accounts to which it relates to any party other than the [Level 2 Insurance Group] and APRA, or for any purpose other than that for which it was prepared.

[Auditor’s signature]

[Date of the Auditor’s review report]

[Auditor’s address]

⁴¹ Where the group auditor determines it necessary to issue a modified auditor’s review report on the annual accounts of a Level 2 Insurance Group, the principles contained in *ASA 705 Modifications to the Opinion in the Independent Auditor’s Report* may provide useful guidance.

Appendix 3

(Ref: Para.65)

EXAMPLE OF AN UNMODIFIED PRUDENTIAL REVIEW REPORT

Prepared by the Appointed Auditor of a General Insurer or the Group Auditor of a Level 2 Insurance Group Pursuant to the Reporting Requirements Specified in Australian Prudential Regulation Authority Prudential Standard GPS 310 *Audit and Related Matters* - Attachment A or Attachment C as is relevant to the engagement.

INDEPENDENT AUDITOR'S REVIEW REPORT

To [Title of Those Charged with Governance⁴²] of [General Insurer] or [Level 2 Insurance Group]

Prudential Review Report as required by Australian Prudential Regulation Authority – Prudential Standard GPS 310 *Audit and Related Matters*

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

Responsibility [Title of Those Charged with Governance]

The [Title of those charged with governance] of [General Insurer] or [Level 2 Insurance Group] are responsible for establishing and maintaining systems to ensure compliance with all applicable APRA Prudential Requirements, which includes providing APRA with:

- (a) a Risk Management Declaration, as set out in Attachment B to APRA Prudential Standard GPS 220 *Risk Management* (GPS 220); and
- (b) a Financial Information Declaration (signed by the Chief Executive Officer and the Chief Financial Officer) as set out in Attachment C to APRA Prudential Standard GPS 220.

Auditor's Responsibility

Our responsibility is to perform a review as required by GPS 310, described in *Scope* paragraphs *Part A* to *Part E* 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 [General Insurer] or [Level 2 insurance Group] has not complied, in all material respects, with its responsibilities and reporting requirements. ASAE 3000 requires us to comply with relevant ethical requirements relating to assurance engagements.

Our audit [and review] of the financial report(s) required under the *Corporations Act 2001* and our audit of the yearly statutory accounts or [annual accounts] required under the *Insurance Act 1973* are directed towards obtaining sufficient evidence to form an opinion [and conclusion] under the appropriate legislation. These procedures were not designed to enable us to conclude on other matters required by APRA's Prudential Standards. We have therefore performed additional procedures beyond those undertaken in order to meet our responsibilities in relation to our audit [and review] of the financial report(s) required under the *Corporations Act 2001*, and our audit of the yearly statutory accounts or [annual accounts] required under the *Insurance Act 1973*.

Our review consists primarily of making enquiries of [General Insurer's] or [Level 2 Insurance Group] personnel and applying analytical and other review procedures. We have performed our review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.

⁴² Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors for a locally incorporated insurer or senior officer outside Australia for a foreign insurer. Insert appropriate title, when prompted, throughout the report.

Inherent Limitations

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.

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 [General Insurer] or [Level 2 Insurance Group], 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 [General Insurer] or [Level 2 Insurance Group].

Furthermore, projections of any evaluation of internal control procedures 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 preparation, or events occurring after the end of the reporting period.

Basis for Preparation and Restricted Distribution

This report has been prepared solely for the [Title of those charged with governance] in order to meet the APRA reporting requirements of [General Insurer] or [Level 2 Insurance Group]. This report is not to be used for any other purpose or distributed to any other party. We disclaim any assumption of responsibility for any reliance on this report to any party other than [General Insurer] or [Level 2 Insurance Group] and APRA, or for any purpose other than that for which it was prepared.

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

During [insert month and year] we performed review procedures that we consider necessary in relation to [General Insurer]'s or [Level 2 Insurance Group]'s systems, procedures and controls that address compliance with all applicable Prudential Requirements. Prudential Requirements include requirements imposed by the:

- (a) *Insurance Act 1973*;
- (b) *Insurance Regulations 2002*;
- (c) APRA Prudential Standards;
- (d) *Financial Sector (Collection of Data) Act 2001*;
- (e) APRA Reporting Standards;
- (f) APRA conditions on the Insurer's authorisation;
- (g) Directions issued by APRA, pursuant to the *Insurance Act 1973*; and
- (h) Other requirements imposed by APRA in writing (if applicable).

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 controls that address compliance, in all material respects, with applicable Prudential Requirements, specified above, and that these systems, procedures and controls were not kept up-to-date.

We have not tested whether these systems, procedures and controls operated effectively throughout the full period, and express no opinion on their operating effectiveness.

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

We have performed review procedures that we consider necessary in relation to [General Insurer]’s or [Level 2 Insurance Group]’s systems, procedures and controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing the quarterly and annual returns provided to APRA in accordance with the requirements of the *Financial Sector (Collection of Data) Act 2001*), that address the risk of material error in the APRA returns.

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] [General Insurer] or [Level 2 Insurance Group] did not have systems, procedures and controls relating to actuarial data integrity and financial reporting risks, that are adequate and operating effectively to address the risk of material error in the APRA returns.

Part C – Compliance with RMS and REMS

We have performed review procedures that we consider necessary in relation to [General Insurer]’s or [Level 2 Insurance Group]’s compliance, in all significant respects, with its Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS) for the [insert period].

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] [General Insurer] or [Level 2 Insurance Group] did not comply, in all significant respects, with its RMS and REMS.

Part D – Controls in Place to ensure reliable Statistical and Financial Data

We have performed review procedures that we consider necessary in relation to [General Insurer]’s or [Level 2 Insurance Group]’s systems, procedures and controls in place to ensure that reliable statistical and financial data are provided to APRA in the Quarterly or [Semi-Annual] APRA Returns, required by APRA Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*, for the [insert period].

We have performed the 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 [General Insurer] or [Level 2 Insurance Group] 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 Quarterly or [Semi-Annual] APRA Returns.

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 or [Semi-Annual] Returns.

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

We have evaluated the results of our procedures conducted during (i) this review, (ii) our audit of the yearly statutory accounts or [annual accounts] prepared in accordance with the *Insurance Act 1973* and (iii) our audit [and review] performed under the *Corporations Act 2001*, in order to report to [Title of those charged with governance] of [General Insurer] or [Level 2 Insurance Group] and APRA:

- (a) matters which will, or are likely to, affect adversely the interests of policyholders of the Insurer; and
- (b) instances in which the Insurer 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 breaches and therefore provide no assurance that all such circumstances and breaches have been identified and reported.

[The overseas operations of a foreign insurer are excluded from the scope of this review.]

Independence

In conducting our review we have, to the best of our knowledge and belief, complied with the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*.

*Conclusions*⁴³

Part A – Existence of Controls addressing Compliance with Prudential Requirements

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that, at the date of our review [insert date], [General Insurer] or [Level 2 Insurance Group] 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 were not kept up-to-date.

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

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that, for the [insert period], [General Insurer] or [Level 2 Insurance Group] did not have systems, procedures and controls relating to actuarial data 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 the *Financial Sector (Collection of Data Act) 2001*) that are adequate and effective to address the risk of material error in the APRA returns.

Part C – Compliance with RMS and REMS

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that, for the [insert period], [General Insurer] or [Level 2 Insurance Group] did not comply, in all significant respects, with its RMS and REMS.

Part D – Controls in place to ensure Reliable Statistical and Financial Data

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that, for the [insert period], [General Insurer] or [Level 2 Insurance Group] 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 Quarterly or [Semi-Annual] APRA Returns required by APRA Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*.

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

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that during the [insert period]:

- (a) there are matters which will, or are likely to, affect adversely the interests of policyholders of [General Insurer] or [Level 2 Insurance Group]; and
- (b) [General Insurer] or [Level 2 Insurance Group] did not comply with all applicable Prudential Requirements.

⁴³ Where the Appointed or Group Auditor determines it necessary to issue a modified review conclusion, the principles contained in ASAs, ASREs and ASAEs (as appropriate) may provide useful guidance.

Appendix 4

(Ref: Para.39)

EXAMPLE OF AN ENGAGEMENT LETTER – GENERAL INSURER

For Reporting Engagements Undertaken Pursuant To Australian Prudential Regulation Authority - Prudential Standard GPS 310 *Audit and Related Matters*.

The following example engagement letter is for use as a guide only, in conjunction with the considerations described in GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*.

To [Title of Those Charged with Governance⁴⁴] of [General Insurer]

The *Insurance Act 1973*, Section 13 of the *Financial Sector (Collection of Data) Act 2001* and the Australian Prudential Regulation Authority (APRA) Prudential Standard GPS 310 *Audit and Related Matters* (GPS 310) identify APRA's reporting requirements for general insurers and their appointed auditors.

We set out below, in general terms, our understanding of the terms and objectives of this engagement. This engagement is a separate engagement from our audit [and half year review] appointment(s) under the *Corporations Act 2001*.

Scope

APRA has requested you to obtain from us:

- (a) an auditor's report on the yearly statutory accounts; and
- (b) a review report, on an annual basis, which contains our review conclusions providing limited assurance in relation to the following matters insofar as they relate to [General Insurer], namely whether:
 - (i) there exist systems, procedures and controls, that are kept up-to-date, which address compliance with all applicable Prudential Requirements;
 - (ii) systems, procedures and controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing returns to APRA in accordance with the *Financial Sector (Collection of Data) Act 2001*) are adequate and effective;
 - (iii) [General Insurer] has complied, in all significant respects, with its Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS);
 - (iv) [General Insurer] has systems, procedures and controls in place to ensure that reliable statistical and financial data are provided to APRA in the Quarterly Returns required by APRA Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*; and
 - (v) there are matters which have come to the auditor's attention which will, or are likely to, affect adversely the interests of policyholders of [General Insurer].

The auditor's report and review report will cover the same period as the annual financial report required under the *Corporations Act 2001* and are to be issued within three months of the reporting date.

Responsibility of [Those charged with Governance]

The [Title of those charged with governance] of [General Insurer] are responsible for:

⁴⁴ Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors for a locally incorporated insurer or senior officer outside Australia for a foreign insurer. Insert appropriate title, when prompted, throughout the letter.

- (a) The preparation and fair presentation of the yearly statutory accounts and the information they contain, in accordance with the requirements of the *Insurance Act 1973* and APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. This responsibility also includes such internal control relevant to the preparation and fair presentation of the yearly statutory accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
- (b) Establishing and maintaining systems to ensure compliance with all applicable APRA Prudential Requirements, which includes providing APRA with:
 - (i) a Risk Management Declaration, as set out in Attachment B to APRA Prudential Standard GPS 220 *Risk Management* (GPS 220); and
 - (ii) a Financial Information Declaration (signed by the Chief Executive Officer and the Chief Financial Officer) as set out in Attachment C to APRA Prudential Standard GPS 220.

Auditor's Responsibility

As the auditor of [General Insurer], we carry out sufficient procedures to enable us to form an opinion on the state of [General Insurer]'s affairs and its results and to report thereon to the members of [General Insurer] in accordance with the requirements of the *Corporations Act 2001* [or other appropriate local or overseas requirements]. Although our audit [and review] under the *Corporations Act 2001* will include such review of [General Insurer]'s systems of accounting and internal control and performing such tests and enquiries as we consider necessary, these audit [and review] procedures are not designed to form an opinion or conclude on the systems of accounting and internal control taken as a whole.

Our audit [and review] procedures under the *Corporations Act 2001* are therefore not designed to enable us to express an opinion on the adequacy of systems and procedures operating within [General Insurer] to generate [General Insurer]'s yearly statutory accounts pursuant to APRA reporting requirements applicable to the Insurer; nor are they designed to enable us to conclude on the existence or adequacy and operating effectiveness of systems, procedures and controls operating within [General Insurer] to generate reliable financial and statistical information and to ensure compliance with all Prudential Requirements; nor are our procedures designed to enable us to conclude as to [General Insurer]'s compliance with its RMS and its REMS.

[The auditor of a foreign insurer amends the above paragraphs to reflect the applicable circumstances. The overseas operations of a foreign insurer are excluded from the scope of this review.]

Therefore, in order to satisfy the requirements of APRA, we shall have to carry out additional procedures over and above those which are performed in our capacity as the auditor under the *Corporations Act 2001* [other legislation]. These additional procedures will include a review of [General Insurer]'s management systems and performing such tests and enquiries as we consider necessary in the circumstances.

Despite our involvement in examining the [General Insurer]'s systems of control, it must be appreciated that it is the responsibility of those charged with governance of [General Insurer] to establish and maintain all of [General Insurer]'s internal control systems (refer to *Responsibility of Those charged with Governance* above). All such systems have their limitations and, this being so, errors or irregularities may occur and which may not be detected. Our work is not to be relied upon for the purposes of discovering fraud, error, or non-compliance with laws and regulations, although we shall report to the appropriate level of management any fraud, error, or non-compliance that may be identified as a result of our review.

As part of our procedures, we shall request representations from management and, where appropriate, those charged with governance, concerning assertions made in connection with the engagement.

After the completion of our auditor's report and review report, it is our normal practice to report any matters of significance, together with suggestions for their rectification and any recommendations we may have on the systems, procedures and controls in general. However, as our examination will be

limited to the audit and review in relation to matters set out in the Scope section above, you cannot assume that any matters reported to you indicate that there are no additional matters or matters that you should be aware of in meeting your responsibilities.

We recognise that there may be some overlap between our audit [and review] under the *Corporations Act 2001* and work that is necessary to fulfil APRA's requirements. In order to help ensure the most efficient use of resources, wherever possible, reliance will be placed on work that is carried out for statutory financial report audit [and review] purposes.

(a) Audit of Yearly Statutory Accounts

Our responsibility is to express an opinion on the yearly statutory accounts based on our audit. The yearly statutory accounts are prepared for the purpose of fulfilling the reporting requirements of [General Insurer] under the *Insurance Act 1973*, APRA Prudential Standards, Section 13 of the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards. We shall conduct our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether, in all material respects, the yearly statutory accounts present a true and fair view of the results of [General Insurer]'s operations for the year and financial position at reporting date, in accordance with the provisions of the *Insurance Act 1973*, APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. The *Insurance Act 1973* and APRA Prudential Standards do not require the application of all Australian Accounting Standards.

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the yearly statutory accounts. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the yearly statutory accounts, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to [General Insurer]'s preparation and fair presentation of the yearly statutory accounts 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 [General Insurer]'s internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [Title of those charged with governance], as well as evaluating the overall presentation of the financial report.

(b) Annual Prudential Review Report

Our responsibility is to perform a review as required by GPS 310, in relation to the matters set out under *paragraph (b)* of the *Scope* section of this letter, and to express a conclusion based on our review.

We shall conduct 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 [General Insurer] has not complied, in all material respects, with its responsibilities and reporting requirements. ASAE 3000 requires us to comply with relevant ethical requirements for assurance engagements.

Our review consists primarily of making enquiries of [General Insurer]'s personnel and applying analytical and other review procedures. We shall perform our review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently will not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we shall not express an audit opinion.

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*.

Internal Audit (where applicable)

[General Insurer]'s internal audit function is considered well placed to review and test properly documented systems, procedures and controls operating within [General Insurer]. Consequently, it is our intention to liaise closely with the Internal Audit Function throughout the year.

Where work is carried out by Internal Audit as part of [General Insurer]'s internal control procedures, we intend to review the work performed and carry out such reperformance tests and other procedures as we consider necessary. Where we are satisfied with the work carried out by Internal Audit, it is our intention to place reliance on such work in accordance with Auditing Standard ASA 610 *Using the Work of Internal Auditors* and accordingly reduce the extent of our own procedures relating to internal controls.

Special Purpose Engagements

As a separate engagement, we shall undertake an [audit/review/agreed-upon procedures (insert as appropriate)] and issue a report on a specific area identified by APRA. The details of this engagement will be the subject of a specific request from APRA and result in a separate engagement letter based on that request.

Confidentiality

Our annual APRA reports and special purpose engagement report will be issued to [Title of those charged with governance] of [General Insurer] with a copy of the special purpose engagement report sent to APRA at the same time. Any further requests or enquiries from APRA will be communicated to us through [General Insurer]. In this way our confidential relationship with [General Insurer] will be maintained. However, the *Insurance Act 1973* sections 49, 49A and 49B provide that an Insurer's appointed auditor and APRA may communicate with each other on a bilateral basis in certain circumstances.

The Auditor's Report on the yearly statutory accounts and the auditor's Prudential Review Report are prepared for [Title of those charged with governance] in order to meet [General Insurer]'s APRA reporting requirements. These reports are not to be used for any other purpose or distributed to any other party. We disclaim any assumption of responsibility for any reliance on these reports to any party other than [General Insurer] and APRA, or for any purpose other than that for which they were prepared.

Fees

APRA requirements will result in additional audit and review procedures being carried out. Fees relating to this work will be based on the degree of responsibility and skill involved and the time necessarily occupied by the work undertaken.

As the fees will not relate to our audit [and review] carried out in our capacity as the statutory auditor under the *Corporations Act 2001*, our invoices will be rendered separately so as to clearly identify the additional costs of APRA's requirements in relation to the audit of the yearly statutory accounts and the prudential review report.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with you and your staff and we trust that you will make available to us whatever records, documentation and other information are requested in connection with our audit and review.

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the yearly statutory accounts and our review pursuant to APRA Prudential Standard GPS 310.

Yours faithfully,

Guidance Statement GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [Insurer] by

(signed)

.....

Name and Title

Date

Appendix 5

(Ref: Para.39)

EXAMPLE OF AN ENGAGEMENT LETTER – LEVEL 2 INSURANCE GROUP

For Reporting Engagements Undertaken Pursuant To Australian Prudential Regulation Authority - Prudential Standard GPS 310 Audit and Related Matters.

The following example engagement letter is for use as a guide only, in conjunction with the considerations described in GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*.

To [Title of Those Charged with Governance⁴⁵] of [Parent entity of Level 2 Insurance Group]

The *Insurance Act 1973*, Section 13 of the *Financial Sector (Collection of Data) Act 2001* and the Australian Prudential Regulation Authority (APRA) Prudential Standard GPS 310 *Audit and Related Matters* (GPS 310) identify APRA's reporting requirements for Level 2 Insurance Groups and their group auditors.

We set out below, in general terms, our understanding of the terms and objectives of this engagement. This engagement is a separate engagement from our audit [and half year review] appointment(s) under the *Corporations Act 2001*.

Scope

APRA has requested you to obtain from us:

- (a) an auditor's review report on the group annual accounts; and
- (b) a review report, on an annual basis, which contains our review conclusions providing limited assurance in relation to the following matters insofar as they relate to [Level 2 Insurance Group], namely whether:
 - (i) there exist systems, procedures and controls, that are kept up-to-date, which address compliance with all applicable Prudential Requirements;
 - (ii) systems, procedures and controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing returns to APRA in accordance with the *Financial Sector (Collection of Data) Act 2001*) are adequate and effective;
 - (iii) [Level 2 Insurance Group] has complied, in all significant respects, with its Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS);
 - (iv) [Level 2 Insurance Group] has systems, procedures and controls in place to ensure that reliable statistical and financial data are provided to APRA in the Quarterly Returns required by APRA Reporting Standards made under the *Financial Sector (Collection of Data) Act 2001*; and
 - (v) there are matters which have come to the auditor's attention which will, or are likely to, affect adversely the interests of policyholders of [Level 2 Insurance Group].

The auditor's report and review report will cover the same period as the annual financial report required under the *Corporations Act 2001* and are to be issued within three months of the reporting date.

⁴⁵ Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors for a locally incorporated insurance group or senior officer outside Australia for a foreign insurance group. Insert appropriate title, when prompted, throughout the letter.

Responsibility of [Those charged with Governance]

The [Title of those charged with governance] of [Level 2 Insurance Group] are responsible for:

- (a) The preparation and fair presentation of the annual accounts and the information they contain, in accordance with the requirements of the *Insurance Act 1973* and APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. This responsibility also includes such internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
- (b) Establishing and maintaining systems to ensure compliance with all applicable APRA Prudential Requirements, which includes providing APRA with:
 - (i) a Risk Management Declaration, as set out in Attachment B to APRA Prudential Standard GPS 220 Risk Management (GPS 220); and
 - (ii) a Financial Information Declaration (signed by the Chief Executive Officer and the Chief Financial Officer) as set out in Attachment C to APRA Prudential Standard GPS 220.

Auditor's Responsibility

As the auditor of [Level 2 Insurance Group], we carry out sufficient procedures to enable us to form an opinion on the state of [Level 2 Insurance Group]'s affairs and its results and to report thereon to the members of [Level 2 Insurance Group] in accordance with the requirements of the *Corporations Act 2001* [or other appropriate local or overseas requirements]. Although our audit [and review] under the *Corporations Act 2001* will include such review of [Level 2 Insurance Group]'s systems of accounting and internal control and performing such tests and enquiries as we consider necessary, these audit [and review] procedures are not designed to form an opinion or conclude on the systems of accounting and internal control taken as a whole.

Our audit [and review] procedures under the *Corporations Act 2001* are therefore not designed to enable us to express an opinion on the adequacy of systems and procedures operating within [Level 2 Insurance Group] to generate [Level 2 Insurance Group]'s annual accounts pursuant to APRA reporting requirements applicable to the Level 2 Insurance Group; nor are they designed to enable us to conclude on the existence or adequacy and operating effectiveness of systems, procedures and controls operating within [Level 2 Insurance Group] to generate reliable financial and statistical information and to ensure compliance with all Prudential Requirements; nor are our procedures designed to enable us to conclude as to [Level 2 Insurance Group]'s compliance with its RMS and its REMS.

Therefore, in order to satisfy the requirements of APRA, we shall have to carry out additional procedures over and above those which are performed in our capacity as the auditor under the *Corporations Act 2001* [other legislation]. These additional procedures will include a review of [Level 2 Insurance Group]'s management systems and performing such tests and enquiries as we consider necessary in the circumstances.

Despite our involvement in examining the [Level 2 Insurance Group]'s systems of control, it must be appreciated that it is the responsibility of those charged with governance of [Level 2 Insurance Group] to establish and maintain all of [Level 2 Insurance Group]'s internal control systems (refer to *Responsibility of [Those charged with Governance]* above). All such systems have their limitations and, this being so, errors or irregularities may occur and which may not be detected. Our work is not to be relied upon for the purposes of discovering fraud, error, or non-compliance with laws and regulations, although we shall report to the appropriate level of management any fraud, error, or non-compliance that may be identified as a result of our review.

As part of our procedures, we shall request representations from management and, where appropriate, those charged with governance, concerning assertions made in connection with the engagement.

After the completion of our auditor's report and review report, it is our normal practice to report any matters of significance, together with suggestions for their rectification and any recommendations we may have on the systems, procedures and controls in general. However, as our examination will be limited to the audit and review in relation to matters set out in the Scope section above, you cannot assume that any matters reported to you indicate that there are no additional matters or matters that you should be aware of in meeting your responsibilities.

We recognise that there may be some overlap between our audit [and review] under the *Corporations Act 2001* and work that is necessary to fulfil APRA's requirements. In order to help ensure the most efficient use of resources, wherever possible, reliance will be placed on work that is carried out for statutory financial report audit [and review] purposes.

(a) Review of Group Annual Accounts

Our responsibility is to express a conclusion on the annual accounts based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the annual accounts do not present a true and fair view, in all material respects, of the results of [Level 2 Insurance Group]'s operations for the year and financial position at reporting end, in accordance with the provisions of the *Insurance Act 1973* and APRA Prudential Standards, the *Financial Sector (Collection of Data) Act 2001* and APRA Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards. The *Insurance Act 1973* and Prudential Standards do not require the application of all Australian Accounting Standards. As the auditor of [Level 2 Insurance Group], ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Our review of the annual accounts consists of making enquiries, primarily of persons responsible for financial and accounting matters, 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.

(b) Annual Prudential Review Report

Our responsibility is to perform a review as required by GPS 310, in relation to the matters set out under *paragraph (b)* of the *Scope* section of this letter, and to express a conclusion based on our review.

We shall conduct 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 [Level 2 Insurance Group] has not complied, in all material respects, with its responsibilities and reporting requirements. ASAE 3000 requires us to comply with relevant ethical requirements for assurance engagements.

Our review consists primarily of making enquiries of [Level 2 Insurance Group]'s personnel and applying analytical and other review procedures. We shall perform our review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently will not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. According, we shall not express an audit opinion.

Independence

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements specified by APRA in Prudential Standard CPS 510 *Governance*.

Internal Audit (where applicable)

[Level 2 Insurance Group]'s internal audit function is considered well placed to review and test properly documented systems, procedures and controls operating within [Level 2 Insurance Group]. Consequently, it is our intention to liaise closely with the Internal Audit Function throughout the year.

Where work is carried out by Internal Audit as part of [Level 2 Insurance Group]'s internal control procedures, we intend to review the work performed and carry out such reperformance tests and other procedures as we consider necessary. Where we are satisfied with the work carried out by Internal Audit, it is our intention to place reliance on such work in accordance with Auditing Standard ASA 610 *Using the Work of Internal Auditors* and accordingly reduce the extent of our own procedures relating to internal controls.

Special Purpose Engagements

As a separate engagement, we shall undertake an [audit/review/agreed-upon procedures (insert as appropriate)] and issue a report on a specific area identified by APRA. The details of this engagement will be the subject of a specific request from APRA and result in a separate engagement letter based on that request.

Confidentiality

Our annual APRA reports and special purpose engagement report will be issued to [Title of those charged with governance] of [Level 2 Insurance Group] with a copy of the special purpose engagement report sent to APRA at the same time. Any further requests or enquiries from APRA will be communicated to us through [Level 2 Insurance Group]. In this way our confidential relationship with [Level 2 Insurance Group] will be maintained. However, the *Insurance Act 1973* sections 49, 49A and 49B provide that a Level 2 Insurance group's group auditor and APRA may communicate with each other on a bilateral basis in certain circumstances.

The Auditor's Review Report on the annual accounts and the auditor's Prudential Review Report are prepared for [Title of those charged with governance] in order to meet [Level 2 Insurance Group]'s APRA reporting requirements. These reports are not to be used for any other purpose or distributed to any other party. We disclaim any assumption of responsibility for any reliance on these reports to any party other than [Level 2 Insurance Group] and APRA, or for any purpose other than that for which they were prepared.

Fees

APRA requirements will result in additional audit and review procedures being carried out. Fees relating to this work will be based on the degree of responsibility and skill involved and the time necessarily occupied by the work undertaken.

As the fees will not relate to our audit [and review] carried out in our capacity as the statutory auditor under the *Corporations Act 2001*, our invoices will be rendered separately so as to clearly identify the additional costs of APRA's requirements in relation to the audit of the annual accounts and the prudential review report.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with you and your staff and we trust that you will make available to us whatever records, documentation and other information are requested in connection with our audit and review.

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the annual accounts and our review, pursuant to APRA Prudential Standard GPS 310.

Yours faithfully,

Guidance Statement GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [Level 2 Insurance Group] by

(signed)

.....

Name and Title

Date

Appendix 6

(Ref: Para.24)

RISK MANAGEMENT STRATEGY (RMS) AND REINSURANCE MANAGEMENT STRATEGY (REMS) DOCUMENTS

Risk Management Strategy (RMS)

1. The RMS is a high level, strategic document intended to describe the key elements of an insurer's Risk Management Framework (RMF), including the insurer's risk appetite, policies, procedures, managerial responsibilities and controls to identify, assess, monitor, report on and mitigate all material risks⁴⁶, financial and non-financial, having regard to such factors as the size, business mix and complexity of the insurer's operations.
2. Prudential Standard GPS 220 *Risk Management* sets out the key requirements for an insurer's RMF and RMS document. Where specifically indicated in GPS 220, certain requirements (including the requirement for a RMS) may be complied with on an insurance group basis, provided that the Board of the insurer is satisfied that the requirements of GPS 220 are met in respect of the insurer.
3. The following is a list of some of the key aspects which are to be included in an insurer's RMS⁴⁷:
 - Outline of the risk governance relationship between the Board, Board committees and senior management.
 - Description of the processes for identifying and assessing risks.
 - Description of the process for establishing mitigation and control mechanisms for individual risks.
 - Description of the process for monitoring and reporting risk issues.
 - Description of the approach to ensuring relevant staff have an awareness of risk issues and instilling an appropriate risk culture, including the level of accessibility of the RMS.
 - Identification of those persons or groups of persons with managerial responsibility for the RMF, including their roles and responsibilities.
 - Description of the process by which the RMF (including the RMS, the Reinsurance Management Framework (REMF) and REMS, the risk management function (or role), and the internal control system) is to be reviewed to ensure that the framework remains effective.
 - Overview of the mechanisms in place for monitoring and ensuring continual compliance with the Minimum Capital Requirement (MCR).
 - Overview of the processes and controls in place for ensuring compliance with all other Prudential Requirements.
 - Identification of local risks and the risks arising from the overseas operations of the insurer that could impact on the Australian operations of the insurer.

⁴⁶ Under GPS 220, material risks must, at a minimum, include: asset risk including asset and liability mismatch, balance sheet risk, market risk, credit risk; operational risk; insurance risk; insurance concentration risk; asset concentration risk and strategic and tactical risks that arise out of the insurer's business plan.

⁴⁷ Refer to GPS 220 for a complete list of requirements. It should be noted that, where the insurer is part of an Australian or global corporate group, or is a foreign insurer, GPS 220 and GPS 230 identify additional requirements for the RMS and the REMS.

Reinsurance Management Strategy (REMS)

1. The REMS is a high level, strategic document intended to describe the key elements of the insurer's REMF, including all policies, procedures, management responsibilities and controls to manage the selection, implementation, monitoring, review, amendment and documentation of reinsurance arrangements of the insurer.
2. Prudential Standard GPS 230 *Reinsurance Management* sets out the key requirements for the REMF, REMS document, as well as the Reinsurance Arrangements Statement and the annual Reinsurance Declaration. Where specifically indicated in GPS 230, certain requirements (including the requirement for a REMS) may be complied with on an insurance group basis, provided that the Board of the Insurer is satisfied that the requirements of GPS 220 are met in respect of the insurer.
3. The following is a list of some of the key aspects which must be included in a regulated institution's REMS⁴⁸:
 - Definition and documentation of the insurer's objectives and strategy for reinsurance management and control, reflecting the insurer's appetite for risk.
 - Identification of the key elements of the insurer's policies and procedures, processes and controls that comprise the insurer's REMF.
 - Documentation of the process and methodologies for setting and monitoring its Insurance Concentration Risk Charge (ICRC)⁴⁹.
 - Summary of the processes for selecting, implementing, monitoring and reviewing reinsurance arrangements.
 - Summary of the process for ensuring accurate and complete reinsurance documentation is put in place.
 - Summary of the insurer's process for setting and monitoring retentions so that the regulated institution's ICRC is not exceeded.
 - Documentation of the processes for reviewing and ensuring the adequacy of reinstatements of all or parts of the regulated institution's catastrophe reinsurance program.
 - Identification of those persons or groups of persons with managerial responsibility for the REMF and setting out their roles and responsibilities in relation to that framework.
 - Identification of local risks and the risks arising from the overseas operations of the insurer that could impact on the Australian operations of the insurer.
4. The RMS and REMS documents, prepared in accordance with the requirements of GPS 220 and GPS 230, respectively, must be submitted to APRA after being approved by those charged with governance of the regulated institution. The regulated institution is required to review its RMS and REMS at least annually (or as close to annually as is practicable) to ensure that its RMF and REMF are documented accurately. Material changes to the RMS and REMS must be submitted to APRA within 10 business days of being approved by those charged with governance of the regulated institution.

⁴⁸ Refer to GPS 230 for a complete list of requirements. It should be noted that, where the insurer is part of an Australian or global corporate group, or is a foreign insurer, GPS 220 and GPS 230 identify additional requirements for the RMS and the REMS.

⁴⁹ GPS 116 *Capital Adequacy: Insurance Concentration Risk Charge* sets out specific issues that a regulated institution must consider in calculating its ICRC.

