

**GS 012**  
(June 2009)

**Guidance Statement GS 012**  
*Prudential Reporting*  
*Requirements for Auditors of*  
*Authorised Deposit-taking*  
*Institutions*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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This Guidance Statement is available on the AUASB website:  
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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), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the appointed auditor of an Authorised Deposit-taking Institution (ADI), reporting in accordance with the prudential reporting requirements specified by APRA in its ADI Prudential Standard APS 310 *Audit and Related Matters* (APS 310).

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

- (a) APS 310 and other applicable APRA Prudential Requirements, including the *Banking Act 1959* (Banking 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 an ADI beyond those which are imposed by the Banking 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.

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

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural 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 details and suggested procedures 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 mandatory requirements.

Dated 24 June 2009

M H Kelsall  
Chairman - AUASB

## GUIDANCE STATEMENT GS 012

### *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions*

#### Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB), in consultation with the Australian Prudential Regulation Authority (APRA), to provide guidance to the appointed auditor<sup>1</sup> of an Authorised Deposit-taking Institution (ADI)<sup>1</sup>, reporting in accordance with the prudential reporting requirements specified by APRA in its ADI Prudential Standard APS 310 *Audit and Related Matters* (January 2009) (APS 310).
- 2 The table in Appendix 1 to this Guidance Statement, entitled *Reporting Requirements for Appointed Auditors*, outlines relevant reporting requirements applicable to the appointed auditor of an ADI reporting pursuant to APS 310.
- 3 Reference, in this Guidance Statement, to an ADI will be taken, in the case of a:
  - (a) 'locally incorporated ADI', as a reference to:
    - (i) an ADI on a Level 1 basis; and
    - (ii) a group of which an ADI is a member on a Level 2 basis; or
  - (b) 'foreign ADI'<sup>1</sup>, as a reference to the foreign ADI's Australian operations as if they were a stand-alone ADI.

Level 1 and Level 2, as applied in this Guidance Statement, have the meaning given in ADI Prudential Standard APS 110 *Capital Adequacy* (APS 110) and APS 310.

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<sup>1</sup> The terms 'appointed auditor', 'ADI', 'foreign ADI' and authorised NOHC are defined in paragraph 34 of this Guidance Statement.

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### **Issuance Date**

- 4 This Guidance Statement is issued in June 2009 by the AUASB and replaces AGS 1008 *Audit Implications of Prudential Reporting Requirements for Authorised Deposit-taking Institutions (ADIs)*, issued in July 2002.
- 5 This Guidance Statement is effective for assurance engagements undertaken in relation to reporting periods commencing on or after 1 January 2009.

### **Introduction**

#### **Prudential Supervision of ADIs**

- 6 Under the *Banking Act 1959* (Banking Act), APRA is responsible for the prudential supervision and monitoring of prudential matters relating to ADIs, authorised non-operating holding companies (authorised NOHCs),<sup>1</sup> and groups of bodies corporate which are their subsidiaries, in order to protect the interests of depositors of the ADIs and to promote financial system stability in Australia.
- 7 APRA formulates, promulgates and enforces prudential policy and practice through ADI Prudential Standards (APSS). In addition, APRA may also issue non-enforceable ADI Prudential Practice Guides (APGs) and other guidelines, to assist ADIs in complying with the requirements in its Prudential Standards and, more generally, to outline prudent practices in relation to certain elements of an ADI's operations.<sup>2</sup>
- 8 An ADI is required to appoint an auditor (the appointed auditor) for the purposes of APS 310. The appointed auditor of an ADI has an important role to play in the prudential supervision process. Requirements for appointed auditors of ADIs to provide reports on prudential matters to APRA are intended to assist APRA in assessing the reliability of information supplied to it by an ADI.
- 9 The use by ADIs and APRA of assurance reports prepared by appointed auditors needs to be evaluated in the context of the inherent limitations of an audit or review and the subject matter of the audit or review (refer paragraphs 183-188 of this Guidance Statement).

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<sup>2</sup> Access to APRA Prudential Standards, Prudential Practice Guides and legislation relevant to ADIs is available on APRA's website ([www.apra.gov.au](http://www.apra.gov.au)).



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- 10 APS 310 warns that all persons involved in the provision of information (which includes the appointed auditor) are to note that it is an offence under subsection 137.1 and 137.2 of the *Criminal Code 1995* to provide, whether directly or indirectly, false and misleading information to a Commonwealth entity (such as APRA).

**Responsibilities of the Appointed Auditor**

- 11 The responsibilities and reporting requirements of the appointed auditor of an ADI are contained in:
- (a) applicable AUASB Standards;
  - (b) APS 310;
  - (c) other applicable APRA Prudential Requirements<sup>3</sup>, including the Banking Act, the *Financial Sector (Collection of Data) Act 2001* (FSCODA), and APRA Prudential and Reporting Standards; and
  - (d) relevant ethical and professional standards.
- 12 APRA places reliance on accounting and auditing standards to the extent that they do not conflict with Prudential Requirements applicable to the ADI. APS 310 requires the appointed auditor, in meeting their role and responsibilities, to comply with the Auditing Standards and Guidance Statements issued by the AUASB, except where:
- (a) they are inconsistent with the requirements of APS 310, in which case APS 310 prevails; or
  - (b) APRA otherwise specifies, in writing, to the ADI that alternative standards and guidance are to be used by the appointed auditor.
- 13 The following AUASB Standards are applicable to the engagement:
- (a) Auditing Standards (ASAs) - where reasonable assurance on financial information is required; and
  - (b) Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* – where limited assurance

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<sup>3</sup> See paragraph 34(i) of this Guidance Statement.

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is required in relation to information other than historical financial information and in relation to internal controls.

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

(For an outline of the relevant AUASB Standards applicable to each part of the prudential assurance engagement, refer to Appendix 1 to this Guidance Statement.)

- 14 The appointed auditor accepts the prudential reporting engagement only when the auditor is satisfied that they, and the engagement team if applicable, have met the relevant ethical requirements relating to the assurance engagement.
- 15 The concept of independence is important to the appointed auditor's compliance with the fundamental ethical principles of integrity and objectivity. The appointed auditor is required to meet the independence requirements set out in:
- (a) APRA's ADI Prudential Standard APS 510 *Governance* (APS 510); and
  - (b) the Accounting Professional and Ethical Standards Board's (APESB's) APES 110 *Code of Ethics for Professional Accountants* (APES 110).
- 16 It is important that the appointed auditor of an ADI recognises the additional responsibilities under sections 16B, 16BA and 16C of the Banking Act, imposed on any auditor of an ADI, an authorised NOHC, or their subsidiaries, to provide information to APRA upon request, or where the auditor possesses reportable information specified in that Act, or where the auditor considers that the provision of information would assist APRA in performing its functions under the Banking Act or the FSCODA (see paragraphs 206-219 of this Guidance Statement).
- 17 Under section 70B of the Banking Act, where any conflict between provisions applied to ADIs pursuant to the Banking Act *vis a vis* provisions applied to ADIs pursuant to the *Corporations Act 2001* (Corporations Act) exist, the Banking Act provisions take

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precedence over the Corporations Act provisions. Therefore, any provisions made under the Banking Act governing auditor reporting to APRA (refer paragraphs 206-219 of this Guidance Statement) will override any conflicting Corporations Act provisions which may apply to such reporting.

**Tripartite Relationship**

- 18 Under normal circumstances, APRA does not consult directly with an appointed auditor of an ADI on matters concerning an individual ADI. APRA liaison with an appointed auditor of an ADI is conducted normally under tripartite arrangements involving APRA, the ADI and its appointed auditor(s) (see APS 310).
- 19 Any one of the parties involved in the tripartite relationship may initiate meetings or discussions at any time, when considered necessary. In the normal course, regular tripartite meetings are held to discuss the appointed auditor's annual prudential assurance report, prepared pursuant to APS 310.
- 20 Where an ADI is part of a Level 2 group, APRA may meet with the ADI, the head ADI of the Level 2 group and the appointed auditor at the same time, or separately, on a Level 1 and Level 2 basis, as APRA deems appropriate (see APS 310).
- 21 Notwithstanding the tripartite relationship, APRA and the appointed auditor may meet, at any time, on a bilateral basis at the request of either party. APRA may communicate with an auditor of an ADI on a bilateral basis to obtain or discuss information for whatever reason(s) it considers appropriate.
- 22 Under APS 510 an ADI is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors (or other parties) from communicating with APRA.

**Implementation of the Basel II Framework<sup>4</sup> in Australia**

- 23 APRA's new suite of Prudential Standards became effective on 1 January 2008 and implemented the Basel II Framework in Australia.

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<sup>4</sup> The Basel II Framework is the commonly used description for a document entitled *International Convergence of Capital Measurement and Capital Standards, a Revised Framework*. Background information on the Basel II Framework, and its implementation in Australia, is available on APRA's website at [www.apra.gov.au](http://www.apra.gov.au).

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- 24 The Basel II Framework is applicable to all ADIs in Australia. The Framework provides for two broad approaches to the measurement of an ADI's regulatory capital, namely:
- (a) relatively simple methodologies ('standardised approaches'); and
  - (b) more complex approaches that rely on an ADI's own quantitative estimates ('advanced approaches').
- 25 The majority of ADIs in Australia have adopted the standardised approaches under Basel II to determine their regulatory capital (Standardised ADIs). For these ADIs, changes to risk management and reporting systems were minimal upon transitioning to Basel II.
- 26 ADIs choosing to adopt the advanced approaches under Basel II (Advanced ADIs), require prior approval from APRA (APRA accreditation). Under the advanced approaches for measuring capital adequacy, an ADI is permitted to use its own quantitative risk estimates in calculating regulatory capital. This involves a greater use of internal modelling and other forms of statistical analysis, as well as qualitative assessment.
- 27 Due to the changes arising from the introduction of Basel II in Australia, APRA introduced new reporting requirements for ADIs on a Level 1 and Level 2 basis from 1 January 2008.
- 28 For Standardised ADIs, the reporting requirements are similar to the previous capital reporting requirements, with new additional reporting requirements in areas such as operational risk, securitisation and amendments to risk weighted assets for investment ratings and loan quality. For Advanced ADIs, the majority of the reporting requirements relating to capital are new.
- 29 The reissued APS 310 takes into account the introduction of Basel II as well as other changes to the Banking Act, the FSCODA and other Prudential Requirements which have occurred since APS 310 was last updated in 2000.

**Scope of APS 310 Prudential Reporting Engagements**

- 30 APS 310 provides for two types of engagements to be conducted by the appointed auditor of an ADI, namely:

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- (a) annual prudential reporting engagements (routine reporting) (see paragraphs 38-205); and
  - (b) special purpose engagements (see paragraphs 220-230)
- 31 APRA Prudential Standards<sup>5</sup> may include further requirements for 'independent'<sup>6</sup> audit or review engagements to be undertaken in relation to specific aspects of an ADI's risk management framework and risk data inputs used by an ADI in the calculation of its regulatory capital (refer paragraph 150). The appointed auditor of an ADI may be engaged to undertake engagements of this type.
- These requirements for 'independent' audit or review engagements are additional, and separate, to the APS 310 prudential reporting requirements, and fall outside the scope of this Guidance Statement.
- 32 The audit [and review] of financial reports required under the Corporations Act (where required) is directed towards obtaining sufficient appropriate evidence to form an opinion or conclusion on whether the financial report is presented fairly in accordance with the required financial reporting framework. The financial report audit [and review] is not designed to enable the appointed auditor to conclude in relation to the matters specified in APS 310.
- 33 The APS 310 prudential reporting requirements, imposed on the appointed auditor via the terms of engagement with an ADI, are in addition to the audit [and review] of financial reports required under the Corporations Act.

## **Definitions**

- 34 For the purpose of this Guidance Statement, the following terms have the meanings attributed below:
- (a) 'ADI Reporting Form' (or Data Collection Form), means a form used for the collection and reporting of information in relation to an ADI, as required to be provided to APRA by an ADI in accordance with APRA Reporting Standards made under the FSCODA.

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<sup>5</sup> For example: APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*; APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*; APS 115 *Capital Adequacy: Advanced Measurement Approaches to Operational Risk*; and APS 116 *Capital Adequacy: Market Risk*.

<sup>6</sup> To be undertaken by a party or parties who are independent within the meaning of the relevant APRA Prudential Standards.

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‘Specified ADI Reporting Forms’, means ADI Reporting Forms listed in APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*. Also refer to paragraphs 109-113 of this Guidance Statement.

- (b) ‘Accounting records’ is defined in the AUASB Glossary as including “the records of initial entries and supporting records, such as cheques and records of electronic fund transfers, invoices, contracts, the general and subsidiary ledgers, journal entries and other adjustments to the financial report that are not reflected in formal journal entries, and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.”

For guidance on the application of the definition of ‘accounting records’ to the audit and/or review of ADI Reporting Forms, refer to paragraphs 99-108.

- (c) ‘Advanced ADI’, means an ADI that has APRA’s approval to use the advanced measurement approaches, available under APRA Prudential Standards, for capital adequacy purposes.
- (d) ‘Appointed auditor’, means an independent auditor(s) appointed by an ADI to meet the prudential reporting requirements under APS 310. APS 310 allows for separate auditors to be appointed to meet the APS 310 reporting requirements on a Level 1 and Level 2 basis, and to undertake the different types of engagements provided for in APS 310. APRA may also require, by notice in writing, that an ADI appoint another auditor, in addition to any auditor already appointed by the ADI, for the purposes of APS 310.

Therefore, under APS 310, it is possible for an ADI to have more than one appointed auditor at any time, and for an APS 310 appointed auditor to be different from the auditor responsible for undertaking the financial report audit [and review] under the Corporations Act.

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Where the Banking Act refers to ‘the auditor’ of an ADI, this can be an ‘appointed auditor’ (under APS 310) or another auditor, such as the auditor responsible for the audit [and review] of financial reports required under the Corporations Act (see paragraphs 206-219).

- (e) ‘Authorised Deposit-taking Institution (ADI)’ is defined, under the Banking Act, as a body corporate in relation to which an authority to carry on banking business in Australia under subsection 9(3) of the Banking Act is in force.

ADIs include, but are not limited to: Australian owned banks, foreign subsidiary banks, branches of foreign banks, building societies, credit unions, providers of purchased payment facilities, and specialist credit card institutions.

- (f) ‘Authorised non-operating holding company (authorised NOHC)’ is defined under section 5 of the Banking Act.
- (g) ‘Foreign ADI’ is defined under section 5 of the Banking Act (also refer to paragraph 177 of this Guidance Statement).
- (h) ‘Limited assurance’, means a level of assurance that is less than that provided in an audit. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the appointed auditor’s conclusion. A limited assurance engagement is commonly referred to as a review.
- (i) ‘Prudential Requirements’<sup>7</sup>, is defined in APS 310 and includes requirements imposed by:
- (i) the Banking Act;
  - (ii) Regulations (made under the Banking Act);
  - (iii) APRA Prudential Standards (made under the Banking Act);

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<sup>7</sup> These requirements may differ between locally incorporated and foreign ADIs.

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- (iv) the FSCODA;
  - (v) APRA Reporting Standards (made under the FSCODA);
  - (vi) APRA conditions on the ADI's authorisation; and
  - (vii) any other requirements imposed by APRA, in writing, in relation to an ADI.
- (j) 'Reasonable assurance', means a high, but not absolute, level of assurance. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a positive form of expression of the appointed auditor's conclusion. A reasonable assurance engagement is commonly referred to as an audit.
- (k) 'Routine reporting', refers to the appointed auditor's responsibility under APS 310 to report to APRA and the ADI, on an annual basis, in relation to the matters identified in paragraph 38 of this Guidance Statement.
- (l) 'Standardised ADI', means an ADI that uses the standardised measurement approaches, available under APRA Prudential Standards, for capital adequacy purposes in respect of the whole of its operations.

### **Responsibilities of the ADI**

- 35 It is the responsibility of an ADI's Board and management to ensure that the ADI meets prudential and statutory requirements and has management practices to limit risks to prudent levels (refer to APS 310 and APS 510).
- 36 APS 310 requires an ADI to appoint an auditor(s) to meet the prudential reporting requirements under APS 310. APS 310 sets out the eligibility criteria for the appointment of an auditor as well as the permitted use of group auditors under APS 310.<sup>8</sup>
- 37 The ADI is required to ensure that its appointed auditor(s):

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<sup>8</sup> See APS 310, paragraphs 15-16.



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- has access to all data, information, reports and staff of the ADI, which the appointed auditor reasonably believes is necessary to fulfil its role and responsibilities under APS 310. This includes, access to the ADI's Board, Board Audit Committee and internal auditors, as required;
- is kept fully informed of all APRA Prudential Requirements applicable to the ADI; and
- is provided with any other information that APRA has provided to the ADI that may assist the appointed auditor in fulfilling its role and responsibilities under APS 310.

**Role and Responsibilities of the Appointed Auditor (Routine Reporting)**

38 APS 310 requires the appointed auditor of an ADI to report simultaneously to APRA and the ADI's Board (or Board Audit Committee)<sup>9</sup>, within three<sup>10</sup> months of the end of the financial year of the ADI, in relation to the following matters<sup>11</sup>:

(a) *Assurance on Specified<sup>12</sup> ADI Reporting Forms at the financial year-end:*

(i) Reporting Forms with Data Sourced from Accounting Records

The appointed auditor is required to provide reasonable assurance that the information included in the specified ADI Reporting Forms at the financial year-end, sourced from the ADI's accounting records, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;

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<sup>9</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with APS 510, for overseeing the Australian operations.

<sup>10</sup> For a non-disclosing ADI the relevant period is four months.

<sup>11</sup> Subject to paragraph 40 of this Guidance Statement.

<sup>12</sup> For a listing of ADI Reporting Forms to be subjected to audit and/or review, refer to APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

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(ii) Reporting Forms with Data Sourced from Non-Accounting Records

Unless otherwise indicated, in writing, by APRA, the appointed auditor is required to provide limited assurance that the information, included in the specified ADI Reporting Forms at the financial year-end, sourced from non-accounting records, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;

(iii) Reporting Forms with Data Sourced from a Combination of Accounting and Non-Accounting Record

Unless otherwise indicated, in writing, by APRA, the appointed auditor is required to provide reasonable assurance on information sourced from accounting records, and limited assurance that information sourced from non-accounting records, at the financial year-end, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards (also refer to paragraphs 108 and 112).

(b) *Limited Assurance on Internal Controls addressing Compliance with Prudential Requirements and the Reliability of Data included in ADI Reporting Forms*

APS 310 requires the appointed auditor to provide limited assurance that, in all material respects:

- (i) the ADI has implemented internal controls that are designed to ensure the ADI has:
  - a. complied with all applicable Prudential Requirements; and
  - b. provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (ii) the controls in paragraph 38(b)(i) have operated effectively throughout the financial year.

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(c) *Limited Assurance on Compliance with Prudential Requirements*

APS 310 requires the appointed auditor to provide limited assurance, based on the appointed auditor's work under (a) and (b) above, that the ADI has complied, in all material respects, with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards, during the financial year.

39 Under APS 310, it is the responsibility of the appointed auditor, as provided for in the required terms of engagement by an ADI, to submit directly to APRA:

- (a) all reports required to be prepared in accordance with the terms of engagement with the ADI under APS 310; and
- (b) all assessments and other material associated with these reports, if requested by APRA.

40 Ordinarily, matters reported to APRA under paragraph 39 are also reported to the ADI to which the matter relates. However, APS 310 specifically prohibits the appointed auditor from notifying the ADI of, or from providing the ADI with, the documents referred to in paragraph 39, where:

- (a) the appointed auditor considers that by doing so the interests of depositors of the ADI would be jeopardised; or
- (b) there is a situation of mistrust between the appointed auditor and the Board or senior management of the ADI.

41 In accordance with APS 310, an appointed auditor, whether as part of routine or special purpose engagements, must not place sole reliance on the work performed by APRA.

42 The appointed auditor of an ADI is required to attend all meetings with APRA related to APS 310, whether on a bilateral, tripartite or other basis, unless APRA indicates otherwise in writing.

**Agreeing the Terms of the Annual Prudential Reporting  
Engagement (Routine Reporting)**

- 43 The requirement to report pursuant to APRA’s annual prudential reporting requirements, is in addition to the audit [and review] of financial reports required under the Corporations Act, and is to be treated by the appointed auditor as a separate audit engagement.
- 44 The appointed auditor and the ADI agree on the terms of the engagement in accordance with the requirements of Auditing Standard ASA 210 *Terms of Audit Engagements* and ASAE 3000. These arrangements have to be legally binding and include the required terms of engagement specified in APS 310.
- 45 An engagement letter (or other suitable form) confirms both the client’s and the appointed auditor’s understanding of the terms of the engagement, helping to avoid misunderstanding, and the appointed auditor’s acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
- 46 For recurring engagements, the appointed auditor considers whether circumstances require the terms of the engagement to be revised and whether there is a need to re-confirm in writing the existing terms of the engagement. While the appointed auditor may decide not to re-confirm the terms of engagement each year, factors that may make it appropriate to do so include a recent change of senior management or those charged with governance, or any indication that the ADI misunderstands the objectives and scope of the APS 310 prudential reporting engagements.
- 47 Ordinarily, matters that are contained in the engagement letter include the following:
- The objectives and scope of the annual prudential reporting engagement pursuant to APS 310.
  - The responsibilities of management and, where appropriate, those charged with governance, for the subject matter reported on.
  - The role and responsibilities of the appointed auditor in accordance with the requirements of APS 310.

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- Acknowledgement that the appointed auditor, in meeting its role and responsibilities, will comply with the requirements of applicable AUASB Standards and will consider relevant Guidance Statements issued by the AUASB, except where inconsistent with the requirements of APS 310 or where APRA specifies alternative standards and guidance to be used.
- Identification of the relevant AUASB Standards under which the engagement will be conducted and inclusion of a statement that, although it does not prescribe or create new mandatory requirements, the auditor will consider the guidance contained in this Guidance Statement.
- Agreement by the ADI to provide unrestricted access to whatever records, documentation and other information requested in connection with the prudential reporting engagement.
- Agreement from management and, where appropriate, those charged with governance, to provide written representations.
- Any limitations of the engagement (see paragraphs 183-188).
- The agreed use of the assurance report(s) issued by the appointed auditor, and the extent to which, and the basis on which, the assurance reports may be made available to others (refer paragraphs 72-73).
- The auditor's additional responsibilities to report to APRA under sections 16B, 16BA and 16C of the Banking Act, including reference to Part VIA of the Banking Act which provides for protection in relation to the disclosure of such information (refer paragraphs 206-219).
- Confirmation that the appointed auditor will meet the independence requirements under APS 510 and APES 110.
- The form of reporting and communication in relation to the engagement.

48 The engagement letter explains that any special purpose engagement of any aspect of the ADI's operations, prudential reporting, risk

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management systems or financial position, will constitute a separate engagement(s) and that the details of such engagement(s) will be the subject of a separate engagement letter(s).

- 49 The engagement letter furthermore clarifies that, in accordance with APS 310 and APS 510, the appointed auditor is not to be a party to any contractual arrangements, or any understandings with an ADI, that seeks in any way to limit the auditor's ability or willingness to communicate to APRA. APRA may liaise bilaterally with an appointed auditor and may, although not usually, request information directly from the appointed auditor (see paragraph 21 above). The appointed auditor notifies APRA of any attempts by an ADI to achieve such arrangements or understandings.
- 50 Refer to Appendix 2 of this Guidance Statement for an illustrative example engagement letter to accommodate APRA reporting requirements as per APS 310.

**Planning the Annual Prudential Reporting Engagement (Routine Reporting)**

- 51 The nature and extent of planning activities will vary with the engagement circumstances. Specific matters to be considered by the appointed auditor as part of the planning process include:
- The appointed auditor's understanding of the ADI and its environment, including its internal control and compliance framework (see paragraphs 52-58).
  - The appointed auditor's previous experience with the ADI.
  - The characteristics of the subject matter and the identified assessment criteria (see paragraphs 59-71).
  - The intended users of the appointed auditor's assurance report and their needs (see paragraphs 72-73).
  - Materiality (see paragraphs 74-90).
  - Assurance engagement risk.
  - The appropriate assurance strategy to adopt for each part of the engagement and possible sources of evidence.

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- Personnel and expertise requirements, including the nature and extent of experts' involvement (see paragraphs 91-94).
- Work performed by another auditor (see paragraph 95).
- The activities of the internal audit function and the effect on audit and review procedures (see paragraphs 96-98).
- The auditor's additional reporting responsibilities under the Banking Act (see paragraphs 206-219).

**The Appointed Auditor's Understanding of the ADI and its Environment, including its Internal Control and Compliance Framework**

- 52 The appointed auditor obtains an understanding of the ADI and its environment, including its internal control and compliance framework, and other assurance engagement circumstances, sufficient to:
- (a) identify and assess the risks of the subject matter information being materially misstated, that significant deficiencies in internal controls may exist (in relation to the area of activity to be examined), and/or that the ADI may not be complying with applicable Prudential Requirements; and
  - (b) design and perform further evidence-gathering procedures.
- 53 The appointed auditor exercises professional judgement to determine the nature and extent of the understanding that is needed. When performing procedures to obtain an understanding of the ADI and its environment, consideration of the following matters may be helpful:
- The size, nature and complexity of the ADI and its activities.
  - Any changes in the market environment.
  - Whether the ADI is an Advanced or Standardised ADI (see definitions under paragraph 34(c) and (l)).
  - Whether the ADI is a foreign ADI (see definition under paragraph 34(g)).

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- Governance and management functions within the ADI, including the attitude and awareness of those charged with governance and of management concerning the ADI's compliance with Prudential Requirements, and the respective roles and responsibilities attributed to the finance, risk management, compliance and internal audit functions.
- Relevant aspects of the ADI's risk management framework and systems applicable to the engagement, including the ADI's risk assessment process for identifying risks relevant to prudential reporting objectives and deciding on actions to address those risks through its risk management systems.
- The ADI's internal control relevant to the assurance engagement.
- The ADI's compliance framework, processes and controls (refer to ASAE 3100).
- The significance and complexity of the ADI's information technology environment and systems.
- Any (formal) communications between APRA and the ADI, and the results of any supervisory visits conducted by APRA in relation to the engagement. Refer also to paragraph 92 of this Guidance Statement.
- Recent reports prepared by other auditors appointed to report on any aspect of the ADI.
- Work performed by the internal audit and compliance functions, and any reliance that may be placed on this work.
- Discussions with ADI staff responsible for monitoring regulatory compliance, such as the ADI's Compliance Officer.

*The ADI's Internal Control Relevant to the Assurance Engagement*

- 54 The appointed auditor obtains an understanding of internal control relevant to the assurance engagement.



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- 55 Internal control is the process designed and effected by those charged with governance, management, and other personnel of an ADI, to provide reasonable assurance about the achievement of the ADI's objectives. Prudential Requirements generally require ADIs to have in place internal controls corresponding to their size and complexity aimed at ensuring that:
- (a) risks are managed within prudent limits set by senior management and those charged with governance;
  - (b) information provided to management and those charged with governance is adequate and timely; and
  - (c) the ADI complies with applicable prudential and statutory requirements.
- 56 The term 'internal control', as used in this Guidance Statement, encompasses the following components:
- (a) the control environment;
  - (b) the ADI's risk assessment process;
  - (c) the information system, including the related business processes, relevant to financial and prudential reporting, and communication;
  - (d) control activities; and
  - (e) monitoring of controls.
- 57 The way in which internal control is designed and implemented varies with an ADI's size and complexity. Specifically, smaller Standardised ADIs may use less formal means and simpler processes and procedures to achieve the objectives in paragraph 55.
- 58 In addition to the general planning considerations, the appointed auditor takes into consideration the following factors when planning the review of the ADI's internal controls relevant to the assurance engagement:
- The size, nature and complexity of the ADI under review, and specifically whether or not it is an Advanced ADI, as this will influence the degree of complexity impacting the

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ADI's control environment, compliance framework and control policies and processes.

- The overall compliance framework adopted by the ADI to ensure compliance with all applicable Prudential Requirements, including its controls, policies and processes, and consideration of whether or not these are appropriate given the size, nature and complexity of the ADI.
- The sufficiency and appropriateness of the ADI's Risk Management Systems descriptions and similar policy documents issued in accordance with specific Prudential Standards, and consideration of whether these are up to date and in sufficient detail to facilitate compliance with the relevant Prudential Standards.
- Matters relating to the ADI's organisational structure and operating characteristics, and recent significant changes thereof, which could impact on the ADI's internal controls.
- Knowledge of the ADI's internal controls obtained during other assurance engagements conducted in relation to the ADI.
- The method adopted, and the process used, by the ADI to develop risk information to be disclosed in ADI Reporting Forms.
- Previously communicated instances of material non-compliance with Prudential Requirements and/or material deficiencies in internal controls designed to ensure compliance with all applicable Prudential Requirements and the provision of reliable data to APRA in Reporting Forms, that have not been resolved by the ADI.

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

**The Characteristics of the Subject Matter and the Identified Assessment Criteria**

- 59 The table in Appendix 1 of this Guidance Statement outlines the relevant APS 310 reporting requirements applicable to each part of the assurance engagement.

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- 60 The level of assurance required to be provided by the appointed auditor for Parts A and B of the engagement (see Appendix 1), is determined by the source of the data included in each specified ADI Reporting Form. A reasonable level of assurance (audit) is required for data sourced from 'accounting records'. A limited level of assurance (review) is required for all other data. The AUASB's definition of 'accounting records' (refer paragraph 34(b) of this Guidance Statement) therefore needs to be applied with care. Paragraphs 99-108 below, provide guidance on the application of this definition.
- 61 The appointed auditor identifies the most recent year-end ADI Reporting Forms submitted to APRA for audit and/or review. Further guidance is provided in paragraphs 109-113 below.
- 62 The appointed auditor is to note that, in relation to ADI Reporting Forms prepared under the FSCODA, there are additional Reporting Forms, beyond the specific Reporting Forms listed in Attachment A to APS 310 (which is the subject matter for Parts A and B). These additional Reporting Forms are to be included in the scope of Part C of the assurance engagement (see Appendix 1), together with the Reporting Forms identified in Attachment A to APS 310.
- 63 The appointed auditor identifies, and obtains an understanding of, all the Prudential Requirements (refer to definition under paragraph 34(i)) applicable to the specific ADI (including any additional guidance provided by APRA to the ADI), with particular attention to changes in these requirements during the reporting period. The auditor makes enquiries with respect to any requirements that are imposed in writing by APRA on a bilateral APRA-ADI basis, or in relation to conditions on the ADI's authorisation, as these requirements may vary from one ADI to another.
- 64 Compliance with Prudential Requirements (see paragraphs 38(b) and 38(c) of this Guidance Statement) is broader than compliance with only the quantitative limits in APRA Prudential Standards (for example, capital requirements). The appointed auditor is required to provide assurance in relation to compliance with *all* relevant/applicable Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

The scope of the prudential assurance engagement therefore includes compliance with APRA Prudential Standards dealing with, for example, governance, risk management systems, business continuity

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management and outsourcing and the APS 310 requirements relating to the appointment of the auditor and the use of group auditors.

- 65 In relation to an ADI's responsibility to keep the appointed auditor informed of all APRA Prudential Requirements applicable to the ADI, the appointed auditor obtains written representations from those responsible (see paragraphs 174-176).

*Concept of "Reliability"*

- 66 Under the Australian Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements*, information has the quality of reliability "... when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent".
- 67 In applying this concept of reliability to the prudential reporting engagement, information in ADI Reporting Forms is not to lead users to conclusions that serve the particular needs of an ADI. Furthermore, such information needs to be capable of reliable measurement.
- 68 The concept of reliability is to be viewed in the context of the reliability of the data for the intended use by the identified users (see paragraphs 72-73 below). Materiality is to be applied as outlined in paragraphs 74-90 below.
- 69 APRA Prudential and Reporting Standards provide the frame of reference (benchmarks) for reasonably consistent evaluation or measurement, within the context of the appointed auditor's professional judgement, of the reliability of the information included in ADI Reporting Forms.
- 70 The appointed auditor identifies and obtains an understanding of the applicable Prudential Requirements that govern the preparation of data within ADI Reporting Forms, with particular attention to changes in these requirements during the reporting period under review. In addition to the Prudential and Reporting Standards issued by APRA, other Prudential Requirements, including the specific ADI Reporting Form Instruction Guides, will also have an impact on the provision of reliable data to APRA under the FSCODA and, therefore, the appointed auditor has regard to all relevant Prudential Requirements when planning and conducting the engagement.

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- 71 It is important that the appointed auditor obtains an understanding of how APRA Prudential Standards and APRA Reporting Standards differ from the financial reporting framework (Australian Accounting Standards) which are used to record data in the ADI's accounting records.

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

- 72 Data collected in ADI Reporting Forms are primarily used by APRA and the Reserve Bank of Australia for the purpose of prudential regulation and supervision of individual ADIs, overall supervision of the stability of the financial system and for setting monetary policy. It may also be used by the Australian Bureau of Statistics to construct a range of important statistical macro-economic indicia. Requirements for appointed auditors of ADIs to provide assurance reports on prudential matters to APRA are intended to assist APRA in assessing the reliability of information supplied to it by an ADI.
- 73 APRA has the power under subsection 56(5) of the *Australian Prudential Regulation Authority Act 1998* to make 'protected information' (which may include auditors' reports or information extracted from such reports) available to another financial sector supervisory agency (for example, the Reserve Bank of Australia and Treasury), or any other 'specified' agency (including foreign agencies), when APRA is satisfied such information will assist those agencies in performing its functions or exercising its powers.

**Materiality**

- 74 The appointed auditor considers materiality when:
- (a) determining the nature, timing and extent of audit and review procedures;
  - (b) evaluating the effect of uncorrected misstatements identified in ADI Reporting Forms;
  - (c) evaluating the effect of identified deficiencies in internal controls designed to ensure:
    - (i) compliance with Prudential Requirements; and
    - (ii) reliable data is provided in the ADI Reporting Forms; and

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- (d) assessing the significance of identified instances of non-compliance with relevant Prudential Requirements.
- 75 Determining materiality involves the exercise of professional judgement. Judgements about materiality are made in light of relevant circumstances, and are affected by quantitative and qualitative factors as well as consideration of the potential of misstatements, control deficiencies and/or instances of non-compliance that are individually immaterial but in the aggregate may be of concern.
- 76 Since the concept of materiality applies differently in the context of an audit or review of financial and other information, a review of internal controls, and for the purpose of reporting on an ADI's compliance with Prudential Requirements, it is considered separately below.
- 77 Although there is a greater risk that misstatements, control deficiencies or instances of non-compliance may not be detected in a review than in an audit, the judgement as to what is material is made by reference to the subject matter on which the appointed auditor is reporting and the needs of those relying on that information, not to the level of assurance provided.

*Audit and/or Review of Specified<sup>13</sup> ADI Reporting Forms*

- 78 The principles of assessing materiality for the purpose of an audit and/or review of ADI Reporting Forms will generally be similar to that applying to the audit or review of a financial report.
- 79 For the purposes of the audit and/or review of specified ADI Reporting Forms, the appointed auditor considers materiality, as appropriate, under Auditing Standard ASA 320 *Materiality and Audit Adjustments* (for financial information) and/or ASAE 3000 (for information other than historical financial information). In the absence of specific requirements issued by APRA, the Australian Accounting Standards Board's Accounting Standard AASB 1031 *Materiality* may provide a useful frame of reference to the appointed auditor in determining materiality for the engagement.
- 80 A misstatement in the specified ADI Reporting Forms, either individually or in aggregate with other misstatements, is considered

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<sup>13</sup> For a listing of ADI Reporting Forms to be subjected to audit and/or review, refer to APS 310 Attachment A – *Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

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material if the appointed auditor believes the intended users (refer paragraphs 72-73) may be influenced by the misstatement of the information.

- 81 ASA 320 and AASB 1031 deal with materiality in the context of the financial statements taken as a whole. For the purpose of reporting on the reliability of information included in specified ADI Reporting Forms, the appointed auditor considers and applies materiality at the level of individual Reporting forms, or data items, as appropriate.
- 82 In applying ASA 320 and ASAE 3000, as appropriate, to individual Reporting Forms, the appointed auditor has regard to the nature, purpose and use of the information included in each Reporting Form. The collection and analysis of data in specified Reporting Forms is a critical component of APRA's supervisory function. Information provided to APRA in ADI Reporting Forms are used to construct institutional risk profiles that are used in conjunction with other information to monitor individual ADIs, identify industry trends, and establish benchmarks and trigger points for prudential and financial ratios. This analysis assists APRA in prioritising its supervisory activities. APRA data collections are also used by the Reserve Bank of Australia and the Bureau of Statistics. The appointed auditor refers to ADI Reporting Forms and Instructions, and associated Prudential and Reporting Standards, for information regarding the nature and purpose of each individual ADI Reporting Form.
- 83 The appointed auditor's preliminary assessment of materiality is based largely on quantitative factors. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. The base and percentage may vary depending upon the ADI Reporting Form in question.
- 84 A key concern with any misstatement within ADI Reporting Forms is its potential impact on the ADIs 'capital base' and 'capital adequacy ratio', that are determined in accordance with APRA's prudential standards<sup>14</sup>. This is taken into consideration by the appointed auditor when evaluating whether a misstatement in the ADI Reporting Forms, especially within the *Capital Adequacy* ADI Reporting Forms, is material.
- 85 APRA has advised the AUASB that a materiality threshold of 25 basis points of *Risk Weighted Assets* (determined in accordance with APS 110) may be applied in aggregate by the appointed auditor

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<sup>14</sup> Refer to APS 110.

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as a reasonable basis for determining quantitative materiality for the purpose of the audit and/or review of *Capital Adequacy* ADI Reporting Forms. This threshold may be used as indicative guidance only, in conjunction with the considerations described within this Guidance Statement, which includes consideration of qualitative factors. The appointed auditor exercises professional judgement when applying the threshold in specific circumstances. A lower level of materiality may be appropriate as the level of surplus capital reduces.

- 86 The appointed auditor also needs to have regard to alternative bases such as profit, revenue or assets when considering whether a misstatement within ADI Reporting Forms such as the *Statement of Financial Performance*, *Statement of Financial Position*, *Provisions* and *Impaired Assets*, is material.

*Review of Internal Controls*

- 87 In accordance with ASAE 3000, when reviewing internal controls, the appointed auditor assesses materiality in the context of the ADI's objectives relevant to the particular area of activity being examined, and whether the internal controls will reduce to an acceptably low level, the risks that threaten achievement of those objectives.
- 88 In assessing materiality, the appointed auditor has regard to the measures the ADI has adopted to ensure:
- (a) reliable data is provided to APRA in all ADI Reporting Forms prepared under the FSCODA; and
  - (b) compliance with all applicable Prudential Requirements.
- 89 ASAE 3100 sets out the requirements and provides guidance to the appointed auditor in applying materiality in the context of a compliance engagement.

*Reporting on Compliance with Prudential Requirements*

- 90 APS 310 requires the appointed auditor to provide limited assurance that the ADI has complied, in all material respects, with all relevant Prudential Requirements (see paragraph 38(c) of this Guidance Statement). This conclusion is to be based on the appointed auditor's audit and reviews undertaken to provide assurance in relation to specified ADI Reporting Forms (see paragraph 38(a)) and internal controls (see paragraph 38(b)).



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The appointed auditor considers materiality when evaluating the significance of identified instances of non-compliance with relevant Prudential Requirements (refer to paragraphs 166-170).

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

- 91 An appointed auditor gives further consideration as to whether the auditor has, or will be able to obtain, adequate knowledge and the required skills to undertake the engagement.
- 92 APS 310 prohibits an appointed auditor from placing sole reliance on the work performed by APRA (for example, refer to paragraphs 135 and 150 of this Guidance Statement). APRA expects appointed auditors to exercise their professional judgement and reach their own conclusions.
- 93 The nature and complexity of the ADI increases the likelihood that the appointed auditor may need to involve experts in the engagement. For example, obtaining an understanding of the process and assumptions used by an Advanced ADI to develop risk information, may require technical knowledge of risk measurement methodologies which can be complex.
- 94 When planning to use an expert, the appointed auditor complies with the requirements of, as appropriate, Auditing Standard ASA 620 *Using the Work of an Expert* and ASAE 3000.

**Work Performed by Another Auditor**

- 95 Where the appointed auditor plans to use the work of another independent auditor, the appointed auditor:
- for the audit of financial information, complies with the requirements of Auditing Standard ASA 600 *Using the Work of Another Auditor*; and
  - for other assurance, has regard to the principles of ASA 600.

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

- 96 APS 510 requires all ADIs (including a foreign ADI in relation to its Australian business) and authorised NOHCs, to have in place an independent and adequately resourced internal audit function.<sup>15</sup>
- 97 APS 310 requires an ADI to ensure that the scope of internal audit includes a review of the policies, processes and controls put in place by management to ensure compliance with Prudential Requirements. Furthermore, APS 510 requires that the objectives of the internal audit function include an evaluation of the adequacy and effectiveness of the financial and risk management framework of the ADI.
- 98 In considering the activities of the internal audit function and evaluating the effect, if any, on audit and review procedures, the appointed auditor:
- for the audit of financial information, complies with the requirements of Auditing Standard ASA 610 *Considering the Work of Internal Audit*; and
  - for other assurance, has regard to the principles of ASA 610.

**Matters to Consider in Conducting the Annual Prudential Reporting Engagement (Routine Reporting)**

**Special Considerations Relating to the Audit and/or Review of Specified<sup>16</sup> ADI Reporting Forms**

*Application of the AUASB Definition of 'Accounting Records'*

- 99 APS 310 requires the appointed auditor to provide two different levels of assurance over the reliability of a specific set of ADI Reporting Forms at the ADI's financial year-end (refer paragraph 38(a) of this Guidance Statement). The level of assurance required to be provided by the appointed auditor is determined by the source of the data included in the Reporting Forms. Data sourced from

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<sup>15</sup> Under APS 510, APRA may approve alternative arrangements where APRA is satisfied that it will achieve the same objectives.

<sup>16</sup> For a listing of ADI Reporting Forms to be subjected to audit and/or review, refer to APS 310 Attachment A – *Data Collections subject to reasonable and/or limited assurance*. The requirements are different for Standardised, Advanced and Foreign ADIs.

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- ‘accounting records’, requires a reasonable level of assurance (audit). All other data requires a limited level of assurance (review).
- 100 ‘Accounting records’, is defined in paragraph 34(b) of this Guidance Statement and, ordinarily, includes all the data used by an ADI to manage its financial affairs and to report the results of its operations and its financial position in its financial report on an annual or half-yearly basis (that is, the underlying evidence in support of the financial report). The expectation is, generally, that such data would be subject to rigorous internal controls.
- 101 However, the initial books of entry may also comprise other data which is stored alongside accounting data. Such data may not be used for financial management and financial reporting, and may not be subject to rigorous controls, and therefore fall outside the scope of the reasonable assurance opinion.
- 102 Data in ADI Reporting Forms may be sourced from systems that are not used to produce financial report information and are not readily reconcilable to financial report information (see paragraph 106 below). The initial entries to these systems may be the same as for the accounting records, but both the level of control over the systems and the amount of manipulation/aggregation of the data within such systems may result in the output being significantly different from the accounting records and not readily reconcilable back to these records.
- 103 The appointed auditor makes an assessment of whether or not a data item has been sourced from accounting records, by exercising professional judgement and referring to the definition of accounting records (see paragraph 34(b)). The appointed auditor carefully considers the source and the use of the data, and whether it is appropriately controlled and, therefore, capable of being subjected to audit.
- 104 APRA’s expectation is that most of the information reported in the ADI Reporting Forms specified in Attachment A to APS 310, fall within the scope of the reasonable assurance opinion (*Part A of the Auditor’s Prudential Assurance Report*).
- 105 Ordinarily, most of the Reporting Forms for Standardised ADIs, and most of the ‘non-capital’ Reporting Forms for Advanced ADIs, are sourced from an ADI’s accounting records and fall within the scope of the reasonable assurance opinion.

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- 106 For Advanced ADIs, where the ADI's risk management systems provide internal estimates for some or all of the risk components in determining capital, the 'capital' Reporting Forms will include data items sourced from non-accounting records. Examples include measures for 'probability of default' and 'loss given default'.
- 107 Certain data items may have been sourced indirectly from the accounting records, for example, data sourced from accounting records that involve additional examination, computation, re-classification or segmentation. APRA has indicated that these data items are deemed to have been sourced from the accounting records and will fall within the scope of the reasonable assurance opinion.
- 108 Where ADI Reporting Forms combine elements that are derived from accounting records and non-accounting records (see paragraph 38(a)(iii)), the appointed auditor provides reasonable assurance on information derived from the accounting records (for example, totals derived from the balance sheet such as values for assets, liabilities and derivatives, in the ADI Reporting Forms listed below) and limited assurance on the information derived from non-accounting records, for example:
- *ADI Reporting Form ARF 117.0* - the repricing period allocations to time periods set out in the interest rate sensitivity tables (which are subjective).
  - *ADI Reporting Form ARF 112.1A* - the risk rating for loans based on the loan-to-valuation ratio (LVR) where the security values are subject to variation over time.

Also refer to paragraph 112 below.

*Identification of Financial Year-end ADI Reporting Forms*

- 109 Identification of the year-end ADI Reporting Forms to be subjected to audit and/or review, requires careful consideration by the appointed auditor.
- 110 The initial submission of ADI Reporting Forms, to meet APRA's reporting timetable, may be too soon in the ADI's year-end process for the ADI to have processed all relevant year-end journals and adjustments. As a result, the ADI may have submitted revised Reporting Form(s) after the due reporting date. As the audit requirement is to report on the "reliability" of the year-end Reporting Forms, the appointed auditor selects the most up to date

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(recent) Reporting Forms submitted to APRA for audit or review, rather than the Reporting Forms initially submitted in accordance with APRA's reporting timetable. The appointed auditor conducts further procedures to ensure that the selected Reporting Forms include all relevant year-end journals and adjustments.

- 111 The ADI Reporting Forms which are the subject of the assurance report, are clearly identified in the assurance report. This may be achieved, for example, by:
- (a) attaching the Reporting Forms to the assurance report; or
  - (b) noting the time and date of submission of the Reporting Forms to APRA in the assurance report.
- 112 Certain ADI Reporting Forms may include data sourced from a combination of accounting and non-accounting records, as provided for in APS 310, paragraph 38(c) (see paragraphs 38(a)(iii) and 108 of this Guidance Statement). The appointed auditor needs to clearly identify such data so that the intended user of the assurance report understands the level of assurance attached to each data item. This could be achieved in a number of ways, for example:
- Attaching the Reporting Forms to the assurance report and clearly identifying the level of assurance attached to each individual section (or data item) within each Reporting Form.
  - Listing the Reporting Form and the individual sections (or data items) for which reasonable and limited assurance have been provided within the body of the assurance report under the sections "Appointed Auditor's Responsibilities" and "Auditor's Opinion and Conclusions".
  - Providing a detailed list in an attachment to the assurance report which clearly identifies the Reporting Form and the individual sections (or data items) for which reasonable and limited assurance have been provided.
- 113 Where the ADI Reporting Form subject to audit and/or review at the financial year-end, is not the ADI Reporting Form submitted on the due date in accordance with APRA's reporting timetable, the appointed auditor needs to consider this issue when providing assurance on the design and operational effectiveness of controls over the reliability of Reporting Forms (refer paragraph 136 below).

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**Audit of Specified ADI Reporting Forms - Data Sourced from  
Accounting Records**

*Audit Objective*

- 114 The appointed auditor is required to provide reasonable assurance that information included in ADI Reporting Forms, as specified in Attachment A of APS 310, at the financial year-end, sourced from the ADI's accounting records, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

Refer *Part A* of the illustrative *Auditor's Annual Prudential Assurance Report* in *Appendix 4* of this Guidance Statement.

*AUASB Standards*

- 115 In order to form an opinion on the reliability of financial information included in specified ADI Reporting Forms at the financial year-end, sourced from the ADI's accounting records, the appointed auditor conducts an audit in accordance with the Australian Auditing Standards.

*Gathering Audit Evidence*

- 116 To identify the Reporting Forms, or data items in a Reporting Form, that are to be subjected to audit (the subject matter), the appointed auditor applies the definition of accounting records (refer paragraph 34(b)) to each item of data within each Reporting Form as specified in Attachment A of APS 310.
- 117 Having identified the ADI Reporting Forms, or data items within a Reporting Form, that are to be subjected to audit, the appointed auditor obtains sufficient appropriate audit evidence as part of a systematic process, that includes:
- Obtaining an understanding of the specified ADI Reporting Forms and individual data items included in these Reporting Forms (subject matter), the intended use of the information included in the Reporting Forms by the intended users, and the Prudential Requirements applicable to the preparation and submission of Reporting Forms.
  - Obtaining an understanding of the ADI's system of internal control and the compliance function.

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- Evaluating the controls over ADI Reporting Forms.
  - Assessing the risk that information in Reporting Forms may be materially misstated.
  - Responding to assessed risks and determining the nature, timing and extent of further evidence-gathering procedures.
  - Performing further evidence-gathering procedures clearly linked to the identified risks.
  - Evaluating the sufficiency and appropriateness of evidence.
- 118 The appointed auditor exercises professional judgement in determining the nature, timing and extent of audit procedures to gather sufficient appropriate evidence on which to base the audit opinion.
- 119 A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. However, where the appointed auditor judges that a material weakness exists in the ADI's internal controls designed to ensure reliable data is provided to APRA in the ADI Reporting Forms, and/or where the appointed auditor makes a determination based on effectiveness and/or efficiency, a substantive approach may be more appropriate (for example, for smaller Standardised ADIs).
- 120 Audit procedures for obtaining audit evidence include, but are not limited to, testing of specific controls aimed at ensuring Reporting Forms are reliable and are prepared in accordance with APRA Prudential Standards and Reporting Standards. Audit procedures may include observation, inspection, confirmation, recalculation, re-performance, analytical procedures, enquiry, obtaining independent corroborating information, testing of controls over the compilation of Reporting Forms, testing of controls over the extraction of data from the underlying accounting records (including all relevant year-end adjustments) and obtaining management representations.
- 121 The appointed auditor may decide to place reliance on work undertaken by the auditor appointed for the purpose of the audit of the general purpose financial report, required under the Corporations Act (the statutory audit), as the basis for opining on the reliability of the specified ADI Reporting Forms, or data items included in these forms. However, the appointed auditor is still required to obtain

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additional audit evidence to ensure that the Reporting Forms, or data items in a Reporting Form:

- (a) have been appropriately extracted from the underlying accounting records (which were the subject of the statutory audit); and
- (b) are in accordance with APRA's Prudential Standards and Reporting Standards (which may be different from the Australian Accounting Standards Framework used to record items in the ADI's underlying accounting and statutory records).

122 Where reliance is being placed on work performed for the statutory audit, the appointed auditor ensures that events occurring subsequent to the date of signing the accounts, but before the date of issuing the Auditor's Annual Prudential Assurance Report, are taken into consideration in forming the opinion issued in the Report.

123 Materiality is to be applied as outlined in paragraphs 74-90 of this Guidance Statement.

**Review of Specified ADI Reporting Forms - Data Sourced from Non-Accounting Records**

*Review Objective*

124 The appointed auditor is required to express a conclusion, based on a review, on whether anything has come to the appointed auditor's attention that causes the auditor to believe that information included in ADI Reporting Forms, as specified in Attachment A to APS 310, at the financial year-end, sourced from non-accounting records of the ADI, is not, in all material respects reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

Refer *Part B* of the illustrative *Auditor's Annual Prudential Assurance Report* in *Appendix 4* of this Guidance Statement.

*AUASB Standards*

125 In order to form a conclusion on the *reliability* of information included in specified ADI Reporting Forms at the financial year-end, sourced from non-accounting records, the appointed auditor conducts a review in accordance with ASAE 3000.



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*Gathering Assurance Evidence*

- 126 All ADI Reporting Forms, or data items within Reporting Forms, as specified in Attachment A of APS 310, that have been excluded under paragraphs 114-123 above as not having been sourced from accounting records, are included in this section as the subject matter for review.
- 127 Having identified the ADI Reporting Forms, or data items within Reporting Forms, that are to be subjected to review, the appointed auditor obtains evidence, as part of a systematic process directed by the risk assessment carried out during the planning phase of the engagement.
- 128 The review is substantially less in scope than the audit undertaken in paragraphs 114-123 in order to provide reasonable assurance under Part A of the Auditor's Annual Prudential Assurance Report. The 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.
- 129 The appointed auditor exercises professional judgement in determining the specific nature, timing and extent of review procedures to gather evidence on which to base the conclusion.
- 130 Ordinarily, review procedures include a review of specific controls aimed at ensuring Reporting Forms are reliable and are prepared in accordance with APRA Prudential Standards and Reporting Standards. Review procedures may include analytical procedures, enquiry, limited testing of controls over the compilation of Reporting Forms, limited testing of controls over the extraction of data from the underlying source systems and obtaining management representations.
- 131 Materiality is to be applied as outlined in paragraphs 74-90 of this Guidance Statement.

*Advanced ADIs*

- 132 Under the advanced approaches for measuring capital adequacy, an Advanced ADI is permitted to use its own quantitative risk estimates in calculating regulatory capital. This involves a greater use of internal risk measurement models that generate the credit risk, operational risk, market risk and interest rate risk in the banking book (instead of the standardised risk assessments used by

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Standardised ADIs). As a result, a smaller proportion of information contained in APRA's capital adequacy Reporting Forms, under the advanced approaches, is derived from accounting records.

- 133 At the planning stage of the engagement, the appointed auditor decides on the appropriate assurance approach to adopt in order to gather evidence to reduce the assurance engagement risk to an acceptable low level to provide limited assurance in relation to the reliability of Reporting Forms, or data items in a Reporting Form, which are sourced from the internal risk measurement models.
- 134 A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. The appointed auditor gathers evidence regarding the internal control structure, and that key controls around the risk measurement models, as identified during the planning phase of the audit, are operating effectively to support the assurance conclusion.
- 135 In concluding on any data produced from the internal risk measurement models, the appointed auditor cannot place sole reliance on the work performed by APRA, as part of the initial accreditation process for becoming an Advanced ADI or in any subsequent reviews undertaken by APRA.

**Review of Internal Controls over Compliance with Prudential Requirements and Reliability of ADI Reporting Forms**

*Review Objective*

- 136 The appointed auditor is required to express a conclusion, based on a review, as to whether anything has come to the attention of the auditor to cause the auditor to believe that, in all material respects:
- (a) the ADI has not implemented internal controls that are designed to ensure the ADI has:
    - (i) complied with all applicable Prudential Requirements; and
    - (ii) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA; and

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- (b) the controls in paragraph 136(a) have not operated effectively throughout the financial year.

Refer *Part C* of the illustrative *Auditor's Annual Prudential Assurance Report* in *Appendix 4* of this Guidance Statement.

*AUASB Standards*

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

*Gathering Assurance Evidence*

- 138 The evaluation of whether the ADI has implemented internal controls that are designed to achieve the relevant control objectives as set out in paragraph 136 above, is performed in the context of the appointed auditor's general understanding of the ADI and its environment, the ADI's risk management practices, and its internal control and compliance framework, as obtained for the purpose of planning the engagement. This evaluation is based on whether the ADI has implemented internal controls that have been suitably designed to reduce to an acceptably low level, the risks that threaten achievement of the relevant control objectives.
- 139 The appointed auditor generally adopts a 'top down' approach in gathering evidence, by making enquiries of key personnel, observing the ADI's operations, performing 'walk-through' tests of controls, and inspecting relevant documentation, in order to achieve the following:
- obtaining an understanding of the ADI's overall control environment and compliance framework;
  - identifying the internal compliance function(s) designed to ensure compliance with all applicable Prudential Requirements;
  - identifying policies, procedures and controls designed to ensure compliance with all applicable Prudential Requirements, by reviewing documents such as the ADI's Risk Management Systems descriptions and similar policy documents issued by the ADI in accordance with applicable Prudential Standards;

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- identifying the processes used by the ADI to support the Chief Executive Officer's attestation to APRA over its Risk Management Systems descriptions;
- identifying the internal compliance functions designed to oversee the provision of data to APRA in ADI Reporting Forms;
- identifying significant processes for the preparation of ADI Reporting Forms; and
- identifying the key controls over these significant processes that are designed to ensure that reliable data is provided to APRA in ADI Reporting Forms.

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

- 140 The way in which internal control is designed and implemented varies with an ADI's size and complexity. Smaller ADIs may use less formal means and simpler processes to achieve their objectives.
- 141 The appointed auditor gathers evidence in response to assessed risks with a focus on identifying key controls within the control systems design. The appointed auditor exercises professional judgement in determining the specific nature, timing and extent of review procedures to achieve the review objective.
- 142 Following the evaluation of whether the ADI has internal controls designed to achieve the relevant control objectives, the appointed auditor performs review procedures to obtain evidence about whether these controls have operated as designed throughout the financial year. The auditor may consider how the controls were applied, the consistency with which they were applied, by whom they were applied and the period of time over which the controls were applied.
- 143 The review of operating effectiveness may include procedures such as:
- enquiry of appropriate ADI personnel (and obtaining written representations);
  - observation of the control process;

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- ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively;
  - review of relevant documentation;
  - ‘walk-through’ tests; and
  - limited re-performance of the controls.
- 144 Interpretation of the word ‘reliable’ in the context of the review of controls over ADI Reporting Forms has practical limitations in some circumstances. For many ADIs, it is only at the financial year-end (or for ADIs that are disclosing entities, also at the half year-end) that all the necessary accounting adjustments, such as accruals, prepayments, provisioning and valuations, are prepared and subjected to audit or review. APRA is aware of this position and has indicated it accepts ADI Reporting Forms prepared throughout the year based on the ADI’s normal accounting process.
- 145 The appointed auditor enquires whether there were any changes in internal control, or other matters, subsequent to the financial year-end date and up to the date of the appointed auditor’s assurance report, that may have an impact on the appointed auditor’s conclusion about the effectiveness of internal controls, and obtains written representations from management relating to such matters.
- 146 Materiality is to be applied as outlined in paragraphs 74-90 of this Guidance Statement.

*Advanced ADIs*

- 147 For an Advanced ADI, the appointed auditor furthermore considers the ADI’s internal controls over the risk measurement models used to meet the requirements of specific Prudential Standards and to generate certain risk data provided to APRA in Reporting Forms prepared under the FSCODA.
- 148 The appointed auditor undertakes an appropriate risk assessment of the controls over these models within the context of the stated review objective, and plans the assurance engagement accordingly.
- 149 The appointed auditor obtains an understanding of any deficiencies in the models, identified either by APRA, the ADI, or through any

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independent review, and how such deficiencies have been addressed by the ADI.

- 150 In concluding on the controls over internal risk models, the appointed auditor cannot place sole reliance on the work performed by APRA during the accreditation process to become an Advanced ADI, or on reports issued as a result of any “independent review”<sup>17</sup> required under specific APRA Prudential Standards dealing with credit risk, operational risk, market risk and interest rate risk in the banking book<sup>18</sup>. Under these Standards, APRA may require Advanced ADIs to obtain an independent review of the use of any internal models, statistical techniques, other methods relevant to estimating or assessing risks, and risk data inputs used.<sup>19</sup>
- 151 The appointed auditor reviews any reports issued as a result of independent reviews. In drawing a conclusion on whether or not to use these reports, the appointed auditor has regard to the level of independence of the reviewer, and their qualifications and competency to carry out such a review. In making this assessment, the appointed auditor complies with the requirements of ASAE 3000.
- 152 The appointed auditor makes enquiries about the overall system controls over such models, including controls that ensure the consistency and integrity of the models.
- 153 Review procedures over the models would ordinarily include a review of:

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<sup>17</sup> To be undertaken by a party or parties who are independent within the meaning of the relevant APRA Prudential Standards.

<sup>18</sup> For example, APS 115 includes a requirement for an independent review of the ADI’s operational risk management framework, both initially at the time that approval is sought from APRA to use the advanced approach and thereafter, on an ongoing basis (at least once every three years or when a material change is made to the framework).

<sup>19</sup> The scope of an independent review of an Advanced ADI’s risk management framework, may cover the following:

- the accuracy of the analytics underlying the calculation of the risk adjusted regulatory capital, the outputs of the risk measurement model and the consistency of this methodology;
- assessment of the reasonableness of any assumptions made in the risk measurement model; and
- the continuing appropriateness and adequacy of the risk modelling approach given industry developments in the modelling of risk.

The scope of an independent review of the risk data inputs to the internal risk models (to ensure the continued quality of the data and the effectiveness of internal controls) ordinarily includes an assessment of the controls surrounding the data collection and maintenance processes, as well as data inspection.

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- the control environment and general controls, including the IT function; and
  - change controls (including limited testing).
- 154 Review procedures of data produced from the risk measurement models would ordinarily include a review of:
- the key controls over inputs to the models; and
  - how management review and use the data outputs from the models in the Reporting Forms.

Such review procedures may include making enquiries of management and persons operating the control(s), assessing whether such persons have the appropriate degree of skill and authority to effectively operate the control(s), observation, 'walk through' tests, limited re-performance and analytical review of the resulting Reporting Forms, or data items in a Reporting Form.

**Evaluation of Findings**

*Audit and/or Review of Specified ADI Reporting Forms*

- 155 The appointed auditor evaluates, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention, are material to the reported information. Materiality is to be applied in the context of paragraphs 74-90 of this Guidance Statement.
- 156 In evaluating whether or not the specified ADI Reporting Forms, or data in Reporting Forms, are, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards, the appointed auditor exercises professional judgement, having regard to both the user and intended uses of the information in the Reporting Forms.
- 157 The magnitude of a misstatement alone is only one factor used to assess the misstatement. The appointed auditor evaluates each identified misstatement in the context of information relevant to users of the Reporting Form, by considering qualitative factors and the circumstances in which each misstatement has been made. For example, in evaluating identified misstatements, the appointed auditor has regard to factors such as the level of the ADI's buffer above the particular minimum prudential requirements (determined

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under periodic quantitative calculations) and the sensitivity of these buffers to fluctuations in the ADI's financial performance and position.

- 158 The appointed auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the reported information. In doing so, the appointed auditor needs to consider the fact that the materiality of misstatements involves qualitative as well as quantitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the reported information.
- 159 In extremely rare circumstances, the appointed auditor may conclude that information reported in ADI Reporting Forms in accordance with the relevant APRA Prudential and Reporting Standards, are misleading. The appointed auditor discusses the matter with management and, depending how it is resolved, determines whether, and how, to communicate the matter in the auditor's assurance report.

*Review of Internal Controls*

- 160 The appointed auditor evaluates, individually and in aggregate, whether internal control deficiencies that have come to the auditor's attention are material. Materiality is to be applied in the context of paragraphs 74-90.
- 161 The appointed auditor exercises professional judgement in evaluating the materiality of internal control deficiencies, having regard to the intended users of the auditor's assurance report.
- 162 In evaluating the severity of identified internal control deficiencies, the appointed auditor considers, based on materiality:
- (a) the likelihood that the relevant internal controls may fail to prevent or detect:
    - (i) non-compliance with a Prudential Requirement; or
    - (ii) a misstatement in the data being provided to APRA in ADI Reporting Forms; and



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- (b) the magnitude of the potential resulting non-compliance with a Prudential Requirement on the ADI's overall compliance with applicable Prudential Requirements; and
  - (c) the magnitude of the potential misstatement resulting from the internal control deficiency on the information reported in the ADI Reporting Forms.
- 163 The evaluation of the severity of a deficiency in internal control does not depend on whether a misstatement or non-compliance with a Prudential Requirement has actually occurred, but rather the likelihood that the ADI's controls may fail to prevent or detect a material misstatement or material non-compliance with a Prudential Requirement.

**Reporting on Compliance with Prudential Requirements**

- 164 The appointed auditor is required to express a conclusion, based on the appointed auditor's audit and reviews conducted under paragraphs 114, 124 and 136 above, as to whether anything has come to the attention of the appointed auditor to cause the auditor to believe that, during the financial year, the ADI has not complied, in all material respects, with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.
- Refer *Part D* of the illustrative *Auditor's Annual Prudential Assurance Report* in *Appendix 4* of this Guidance Statement.
- 165 The APS 310 requirement to report matters of non-compliance to APRA on an annual basis, is in addition to the reporting obligations under section 16BA of the Banking Act, which requires certain matters to be reported to APRA immediately and certain other matters to be reported to APRA as soon as is practicable. See paragraphs 206-219 of this Guidance Statement.
- 166 The appointed auditor considers materiality when assessing the significance of identified instances of non-compliance with relevant Prudential Requirements.
- 167 Section 16BA(7) of the Banking Act defines the term 'significant' in the context of matters that are required to be notified to APRA by the appointed auditor as part of the auditor's additional statutory reporting responsibilities under the Banking Act (refer paragraph 218 of this Guidance Statement).

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- 168 The significance of a matter is to be judged by the appointed 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 of the potential impact of the non-compliance rather than the actual impact.
- 169 Furthermore, it is possible that an instance of non-compliance, which is not significant in isolation, may become so when considered in totality with other identified instances of non-compliance.
- 170 Where the appointed auditor considers identified instances of non-compliance as being potentially significant to the ADI as a whole and/or to its depositors' interests, or where the matter may be considered important by APRA in performing its functions under the Act, then the identified instance of non-compliance is a matter to be reported to APRA.
- 171 In order to conclude on an ADI's compliance with all relevant Prudential Requirements, the appointed auditor considers the existence of relevant matters, that may indicate instances of non-compliance, throughout the reporting period and up to the date of signing the auditor's assurance report.
- 172 The appointed auditor's review of subsequent events may include the following procedures:
- reading minutes of the ADI's Board, as well as minutes of any sub committees responsible, for example, for compliance and audit, held after balance date and enquiring about matters discussed at these meetings for which minutes are not yet available;
  - examining the ADI's breach registers up to the date of the auditor's assurance report; and
  - enquiring of the ADI's management as to whether any subsequent events have occurred which might represent non-compliance with relevant Prudential Requirements.
- 173 The appointed auditor reports instances of significant non-compliance which have not previously been reported to APRA by the appointed auditor. This will include matters the ADI indicated it

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was notifying, and which an auditor relied upon as a reason for the auditor not notifying APRA.<sup>20</sup>

**Written Representations**

- 174 Prior to issuing the Auditor's Annual Prudential Assurance Report, the appointed auditor obtains written representations, as are considered appropriate to matters specific to the ADI, from the party responsible<sup>21</sup> for the ADI.
- 175 These written representations are generally in the form of a representation letter. In obtaining and using these written representations, the appointed auditor complies with the requirements of, as appropriate, Auditing Standard ASA 580 *Management Representations* and ASAE 3000.
- 176 Refer to Appendix 3 of this Guidance Statement for an illustrative example of the format of a representation letter, as well as examples of representations that may be considered appropriate in the specific engagement circumstances.

**Foreign ADIs**

- 177 By definition (refer paragraph 34(g)), a foreign ADI is a foreign bank authorised to operate in Australia, effectively as a branch operation. Reference to a foreign ADI does not capture locally incorporated ADI subsidiaries of foreign banks.
- The terms 'branch of a foreign bank' and 'branch of a foreign ADI' are also used in APRA Reporting Standards and ADI Reporting Forms when referring to a 'foreign ADI'.
- 178 Prudential Requirements for foreign ADIs (branches) may differ from those of locally incorporated ADIs<sup>22</sup> and, consequently, these are considered by the appointed auditor. For example, foreign ADIs are not required to report in Australia with respect to branch capital adequacy. However, the Banking Act authority restricts the source and quantum of deposits that foreign ADIs may accept. In addition, APRA has set guidelines relating to the manner in which foreign ADIs inform depositors of the requirements of the Banking Act that

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<sup>20</sup> Under subsections 16BA(5) and 16BA(10) of the Banking Act, an auditor is not required to notify APRA of matters that have been brought to the auditor's attention by the ADI, where the auditor is informed that APRA has been notified of the matter in writing by the ADI and the auditor has no reason to disbelieve the ADI.

<sup>21</sup> Management and, where appropriate, those charged with governance of the ADI.

<sup>22</sup> Which includes a locally incorporated subsidiary of a foreign ADI.

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do not apply to those ADIs. The appointed auditor reports to APRA on the foreign ADI's compliance with all relevant Prudential Requirements.

- 179 APRA requires the appointed auditor of a foreign ADI (branch) to conform to APS 310<sup>23</sup> and other relevant Prudential Requirements as they apply to foreign ADIs (branches). The appointed auditor of a foreign ADI considers the individual engagement requirements and circumstances at the foreign ADI (branch) when interpreting the guidance contained in this Guidance Statement.
- 180 As part of the requirements under APS 310, the appointed auditor of a foreign ADI (branch) is required to provide reasonable assurance over data sourced from accounting records, included in ADI Reporting Forms such as the 'Statement of Financial Performance' and 'Statement of Financial Position',<sup>24</sup>.
- 181 As a foreign ADI (branch) is not required to prepare a financial report under the Corporations Act, there is no requirement for a statutory financial report audit to be undertaken. Therefore, the accounting records of a foreign ADI (branch) would not generally be subjected to a full scope audit, unless the branch is included in the scope of the foreign ADI group audit, where the audit arrangements will be driven by head office audit requirements and applying materiality relevant to the entire group.
- 182 Since generally the appointed auditor of a foreign ADI (branch) has incomplete knowledge of the overseas operations of the foreign ADI, and has not undertaken the statutory financial report audit of the foreign ADI, the appointed auditor of a foreign ADI considers the following additional matters (this is not a complete list):
- The reliance to be placed on work performed by overseas auditors (such as comfort over systems and processes hosted offshore which impact the foreign ADI's (branch's) prudential reporting) and the requirements of ASA 600.
  - The financial reporting framework applied by the foreign ADI for head office (group) reporting and whether

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<sup>23</sup> For example, under paragraph 38 of APS 310 (refer paragraph 38 of this Guidance Statement), appointed auditors are required to provide a consistent level of assurance for foreign ADIs and locally incorporated 'stand-alone' ADIs.

<sup>24</sup> Refer to Attachment A of APS 310 for a complete list of foreign ADI Reporting Forms to be subjected to audit and/or review.

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adjustments are required to comply with APRA Prudential Requirements.

- Assessing materiality for APRA prudential reporting purposes, which may differ from materiality considerations for the purpose of head office (group) reporting.
- The requirements of Auditing Standard ASA 701 *Modifications to the Auditor's Report*, in particular, where sufficient appropriate evidence cannot be obtained.
- In the first year of reporting, the requirements of Auditing Standard ASA 510 *Initial Engagements – Opening Balances*, in particular, with respect to the level of assurance which can be provided over opening balances.

**Inherent Limitations of the Engagement**

- 183 As the systems, procedures and controls to ensure compliance with Prudential Requirements are part of the ADI's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, may impact on the effective operation of the ADI's specific control procedures. Furthermore, fraud, error or non-compliance with laws and regulations may occur and not be detected.
- 184 Due to the nature of audit and review procedures and other inherent limitations of an audit and review, there is a possibility that a properly planned and executed audit or review may not detect all errors or omissions in ADI Reporting Forms, deficiencies in controls, or instances of non-compliance with Prudential Requirements.
- 185 An audit provides reasonable assurance and cannot constitute a guarantee that the information included in ADI Reporting Forms specified in Attachment A to APS 310, sourced from accounting records, are reliable, or that all instances of non-compliance with relevant APRA Prudential and Reporting Standards have been detected.
- 186 While reviews involve the application of audit related skills and techniques, usually they do not involve many of the procedures performed during an audit. In an audit, as the auditor's objective is to provide a high, but not absolute, level of assurance on the reliability of information included in ADI Reporting Forms, the

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auditor uses more extensive audit procedures than in a review. Review procedures therefore do not provide all the evidence required in an audit and, consequently, the level of assurance provided is less than that given in an audit.

187 Accordingly, review procedures undertaken by the appointed auditor provides only limited assurance that:

- (a) information in ADI Reporting Forms, specified in Attachment A to APS 310, sourced from non-accounting records, are reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) the ADI has implemented internal controls that are designed to ensure:
  - (i) compliance with all applicable Prudential Requirements; and
  - (ii) reliable data is provided to APRA in ADI Reporting Forms;
- (c) the controls in paragraph 187(b) have operated effectively throughout the financial year; and
- (d) the ADI has complied with all relevant Prudential Requirements.

188 The appointed auditor performs procedures appropriate to provide limited assurance in relation to internal controls existing at the review date, and whether those controls have operated as documented throughout the financial year. Projections of any evaluation of control procedures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions after the auditor's annual prudential assurance report is signed, or that the degree of compliance may deteriorate.

**Communication**

189 It is the responsibility of the appointed auditor to make the ADI aware, as soon as practicable, of any identified material misstatements in ADI Reporting Forms, material deficiencies in internal controls and instances of material non-compliance arising from the prudential reporting engagement.

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- 190 Such communications are made as soon as practicable, either orally or in writing. The appointed auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, the appointed auditor needs to document the communication.
- 191 When, in the appointed auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the appointed auditor considers whether to modify the auditor's annual prudential assurance report.
- 192 It is important that the appointed auditor understands their additional statutory responsibilities to report certain matters to APRA under the Banking Act. Failure to notify APRA as required represent criminal offences, which attracts criminal penalties. Refer also to paragraphs 206-219 below.
- 193 Material findings (misstatements, control deficiencies and non-compliance) are reported to APRA and the ADI's Board (or Board Audit Committee) as modifications to the appointed auditor's assurance report (Refer paragraph 198).
- 194 Under Auditing Standard ASA 260 *Communication of Audit Matters with Those Charged With Governance* and ASAE 3000, the appointed auditor communicates relevant matters of governance interest arising from the engagement to those charged with governance on a timely basis. Examples of such matters may include:
- The general approach and overall scope of the engagement, or any additional requirements.
  - Fraud or information that indicates that fraud may exist.
  - Significant deficiencies in internal controls identified during the engagement. A significant deficiency is a deficiency or combination of deficiencies in internal control relevant to the engagement that, although not material, in the appointed auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance.

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- Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
  - Expected modifications to the auditor's prudential assurance report.
- 195 The appointed auditor informs those charged with governance of the ADI of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the appointed auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.
- 196 Under APS 310, if requested by APRA, the appointed auditor submits directly to APRA all assessments and other material associated with the auditor's report, such as management letters issued by the appointed auditor to the ADI which contain material findings relating to the auditor's prudential assurance report.

**The Appointed Auditor's Annual Prudential Assurance Report (Routine Reporting)**

- 197 The appointed auditor evaluates the conclusions drawn from the evidence obtained in conducting the assurance engagement as the basis for the auditor's opinion/conclusions as required under APS 310.
- 198 If the appointed auditor:
- (a) concludes that a material misstatement, internal control deficiency and/or non-compliance exists; or
  - (b) is unable to obtain sufficient appropriate assurance evidence to conclude whether a material misstatement, internal control deficiency and/or non-compliance may exist,
- the appointed auditor modifies their opinion/conclusion, and includes a clear description of the reasons in their assurance report, in accordance with the requirements of, as appropriate, ASA 701 and applicable ASAEs.
- 199 As required under APS 310, the appointed auditor of an ADI reports simultaneously to APRA and the ADI's Board (or Board Audit



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Committee)<sup>25</sup>, within three<sup>26</sup> months of the end of the financial year of the ADI.<sup>27</sup>

- 200 The appointed auditor's report may, unless otherwise instructed in writing by APRA, be prepared to cover, as appropriate:
- (a) both the ADI on a Level 1 basis and the Level 2 group, provided it is clear when the appointed auditor is referring to matters relating to the ADI or the Level 2 group; or
  - (b) the ADI on a Level 1 basis and Level 2 group separately.
- 201 To avoid the possibility of the assurance report being used for purposes for which it was not intended, the appointed auditor ordinarily indicates in the auditor's report the purpose for which the report is prepared and any restrictions on its distribution and use (refer paragraphs 72-73).

**Format of Auditor's Annual Prudential Assurance Report**

- 202 AUASB Standards do not prescribe a standardised format for reporting on all assurance engagements. Instead, both Auditing Standard ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* and ASAE 3000 identify the basic elements required to be included in the assurance report. The 'short form' auditor's report ordinarily includes only the basic elements.
- 203 Assurance reports are tailored to the specific assurance engagement circumstances. Although not specifically required under APS 310, the appointed auditor may consider it appropriate to include other information and explanations that do not directly affect the appointed auditor's opinion or conclusions, but provide additional useful information to the users (that is, a 'long form' style of reporting). The inclusion of this information depends on its significance to the needs of the intended users. The following are examples of additional information that may be considered for inclusion:
- Disclosure of materiality considerations (materiality levels) applied.

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<sup>25</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with APS 510, for overseeing the Australian operations.

<sup>26</sup> For a non-disclosing ADI, the relevant period is four months.

<sup>27</sup> Subject to paragraph 40.

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- Significant findings or exceptions relating to particular aspects of the assurance engagement.
- Recommendations.

204 The appointed auditor needs to ensure that this additional information is clearly separated from the auditor's opinion and conclusions, and worded in a manner to ensure that it does not affect the opinion and conclusions. This can be achieved, for example, by including any additional information in a:

- (a) separate appendix to the auditor's short form assurance report; or
- (b) separate section of the auditor's short form assurance report, following the 'opinion and conclusions',<sup>28</sup> section.

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

205 Refer to Appendix 4 of this Guidance Statement for an illustrative example of the appointed auditor's annual prudential assurance report (short form report), prepared pursuant to APRA's APS 310 annual reporting requirements.

**Additional Reporting Requirements under the Banking Act**

206 It is important that the auditor<sup>29</sup> of:

- (a) an ADI; or
- (b) an authorised NOHC; or
- (c) a subsidiary of an ADI or authorised NOHC; or
- (d) if the ADI<sup>30</sup> is a subsidiary of a foreign corporation:
  - (i) another subsidiary (a relevant Australian-incorporated subsidiary) of the foreign corporation (other than an ADI listed in paragraphs (a), (b) or

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<sup>28</sup> See examples of assurance practitioner reports included in *Attachment 1* to ASAE 3100.

<sup>29</sup> Including the appointed auditor - refer definitions at paragraph 34(d).

<sup>30</sup> Whether or not the ADI is itself a foreign ADI.

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(c) above), being a subsidiary that is incorporated in Australia; or

- (ii) another subsidiary (a relevant foreign-incorporated subsidiary) of the foreign corporation (other than an ADI listed in paragraphs (a), (b) or (c) above), being a subsidiary that is not incorporated in Australia and carries on business in Australia;

understands the additional responsibilities to report to APRA under sections 16B, 16BA and 16C of the Banking Act.

- 207 An auditor risks committing an offence under the Banking Act for any contravention of sections 16B and 16BA of that Act. Under section 6B of the Banking Act, the *Criminal Code 1995* applies to all offences against the Banking Act<sup>31</sup>.
- 208 Part VIA of the Banking Act include provisions to protect an 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.

**Auditors to Give Information to APRA on Request**

- 209 Under section 16B of the Banking Act, APRA may give written notice to a person who is, or who has been, the auditor of an ADI listed in paragraph 206 above, to provide information, or to produce books, accounts or documents, about such entities to APRA, if APRA considers that the provision of such information will assist APRA in performing its functions under the Act.

**Requirement for Auditors to Give Information about ADIs**

- 210 Section 16BA of the Banking Act identifies matters of which APRA needs to be notified of:
  - (a) *immediately*, if the auditor has reasonable grounds for believing that, for example:
    - (i) the ADI is insolvent, or there is a significant risk that the ADI will become insolvent; or

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<sup>31</sup> Criminal penalties include provisions for terms of imprisonment.

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- (ii) an existing or proposed state of affairs may prejudice materially the interests of depositors of the ADI; and
- (b) *as soon as is practicable*<sup>32</sup>, if the auditor has reasonable grounds for believing that an ADI has failed to comply with a provision of:
  - (i) the Banking Act, the Regulations, or the FSCODA; or
  - (ii) a Prudential Standard; or
  - (iii) a Direction under Division 1BA of Part II of the Banking Act; or
  - (iv) a condition of its authority;and the failure to comply is or will be *significant*<sup>33</sup>.

211 Under the Banking Act, these matters are to be reported to APRA in writing.

**Auditor may Provide Information to APRA**

212 Section 16C of the Banking Act provides that a person who is, or who has been, the auditor of an ADI listed in paragraph 206 above, may provide information, or produce books, accounts or documents, 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 Banking Act or the FSCODA.

**Discussion of Additional Reporting Requirements under the Banking Act**

213 Sections 16B, 16BA and 16C of the Banking Act is applicable to *all* and *any* auditor of an ADI, authorised NOHCs, or their subsidiaries, not only to auditors appointed by an ADI to meet the prudential requirements under APS 310.

214 In relation to reporting under sections 16B and 16BA of the Banking Act, there is no requirement for the appointed auditor of an ADI to

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<sup>32</sup> No longer than 10 business days.

<sup>33</sup> For the purpose of this paragraph, the term 'significant' is defined in subsection 16BA(7) of the Banking Act. See paragraph 218 of this Guidance Statement.

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carry out additional work to satisfy the auditor with respect to the above matters. The appointed auditor reports to APRA on the basis of, for example:

- (a) information obtained during the course of the auditor's financial report audit [and review] under the Corporations Act;
- (b) additional audit and review procedures undertaken for APRA prudential reporting purposes (pursuant to APS 310 or in accordance with the requirements of another specific ADI Prudential Standard);
- (c) other audit work undertaken at the ADI (for example, Australian Financial Services Licence audits); and
- (d) the appointed auditor's current knowledge of the ADI's affairs at the time of issuing the auditor's assurance report.

215 In circumstances where the appointed auditor identifies that a reportable matter may exist, the auditor carries out such additional work as considered appropriate, to determine whether the facts and circumstances provide reasonable grounds for believing that the matter does in fact exist. In reaching this conclusion, the appointed auditor exercises professional judgement and seeks appropriate legal advice if necessary.

216 The ADI may also notify APRA of the matter(s) identified by the appointed auditor, and provide details of any action(s) taken, or to be taken, in response. However, such notification by the ADI does not relieve the appointed auditor of the statutory obligation to report directly to APRA.

217 Matters likely to prejudice materially the interests of depositors are related generally to capital adequacy, solvency and going concern matters, for example, the ADI's compliance with minimum capital levels as per APRA Prudential Standard APS 110. Materiality is addressed in paragraphs 74-90 of this Guidance Statement.

218 In determining whether a failure to comply with Prudential Requirements is or will be significant, the appointed auditor considers the factors listed in subsection 16BA(7) of the Banking Act, namely:

- (a) the number or frequency of similar failures;

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- (b) the impact the failure has or will have on the ADI's ability to conduct its business;
  - (c) the extent to which the failure indicates that the ADI's arrangements to ensure compliance with the Banking Act, the Prudential Standards or the Regulations might be inadequate;
  - (d) the actual or potential financial loss arising, or that will arise from the failure, to the depositors of the ADI or to the ADI; and
  - (e) any matters prescribed by the Regulations for the purposes of this subsection of the Banking Act.
- 219 In assessing whether the interests of depositors may be prejudiced materially, the appointed auditor considers not only a single activity or a single deficiency in isolation, as depositors' 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. Similarly, it is possible that a breach in compliance, although not significant in isolation, may become so when considered in the context of other possible breaches.

### **Special Purpose Engagements**

#### **APRA Prudential Reporting Requirements (APS 310)**

- 220 Under APS 310, in addition to the annual prudential reporting requirements (routine reporting), APRA may require an ADI, by notice in writing, to appoint an auditor (who may be the existing appointed auditor or another auditor), to provide a report on a particular aspect of the ADI's operations, prudential reporting, risk management systems or financial position. Although a special purpose engagement report will normally only be requested following consultation with an ADI, APRA may commission such a report without prior consultation with an ADI.
- 221 Unless otherwise determined by APRA, an auditor appointed to undertake a special purpose engagement will be required to provide limited assurance on the matters required to be reported on.

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- 222 Under APS 310, the appointed auditor's special purpose engagement assurance report is to be submitted simultaneously<sup>34</sup> to APRA and the ADI's Board (or Board Audit Committee)<sup>35</sup>, within three months of the date of the notice commissioning the report, unless otherwise determined by APRA, and advised to the ADI by notice in writing.
- 223 The APRA requirement for an auditor to undertake a special purpose engagement in a selected area of the ADI's operations, prudential reporting, risk management systems or financial position constitutes a separate reporting engagement. The details of the engagement will normally be the subject of a specific request from APRA to the ADI and a separate engagement letter from the ADI to the appointed auditor based on that request.

**Terms of the Engagement**

- 224 Following the determination by APRA of the specific area to be examined, the appointed auditor, APRA and the ADI agree on the terms of the engagement in accordance with the requirements of applicable AUASB Standards. These arrangements are legally binding and include the required terms of engagement specified in APS 310.
- 225 The appointed auditor accepts the engagement only when the auditor is satisfied that they, and the engagement team, if applicable, have met the relevant ethical requirements relating to the assurance engagement. The concept of independence is important to the appointed auditor's compliance with the fundamental ethical principles of integrity and objectivity and the appointed auditor must be able to meet the independence requirements stipulated under both APS 510 and APES 110.
- 226 An engagement letter (or other suitable form) helps to avoid misunderstandings with respect to the engagement and confirms both the client ADI's and the appointed auditor's understanding of the terms of the engagement, and the appointed auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
- 227 To ensure that there is a clear understanding regarding the terms of the engagement, the following are examples of matters to be agreed:

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<sup>34</sup> Subject to paragraph 40.

<sup>35</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with APS 510 for overseeing the Australian operations.

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- APRA is to identify the scope of the ADI's operations, prudential reporting, risk management or financial position to be the subject of the engagement.
- The appointed auditor, APRA and the ADI are to agree on the objectives of the engagement, key features and criteria of the area(s) to be examined, and the period to be covered by the engagement.
- APRA is to identify clearly the level of assurance required, that is, limited or reasonable assurance.
- The format of reports required (for example, long and/or short form reports) or other communication of results of the engagement.
- Responsibility of those charged with governance for the subject matter of the engagement.
- Understanding of the inherent limitations of an assurance engagement.

**Format of Reporting Requirements**

- 228 The format of the special purpose assurance report may vary depending on the type of engagement; that is, an audit (reasonable assurance) or a review (limited assurance), as well as the subject matter and the findings. The appointed auditor has regard to the requirements, guidance and illustrative examples of reports provided in relevant AUASB Standards - ASAs, ASREs and ASAEs, as applicable, when preparing the special purpose assurance report.
- 229 AUASB Standards do not require a standardised format for special purpose reporting under APS 310. Instead, these Standards identify the basic elements to be included in the auditor's report. Ordinarily, the appointed auditor adopts a long form style of reporting and the report may include a description of the terms of the engagement, materiality considerations applied, the assurance approach, findings relating to particular aspects of the engagement and, in some cases, recommendations.
- 230 The appointed auditor's assurance report is to be restricted to the parties that have agreed to the terms of the special purpose engagement, namely the ADI and APRA, as well as other parties



### **Conformity with International Pronouncements**

- 231 As this Guidance Statement relates to Australian legislative requirements, there is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.
- 232 International Auditing Practice Statement IAPS 1004 *The Relationship Between Bank Supervisors and External Auditors* provides general guidance on managing the relationship between bank auditors and bank supervisors. The primary purpose of this Guidance Statement is to provide guidance to the appointed auditor of an ADI reporting in accordance with the prudential reporting requirements for appointed auditors of ADIs, specified by APRA in APS 310. As a consequence, this Guidance Statement differs in its purpose, form and content from IAPS 1004.

**APPENDIX 1**

**REPORTING REQUIREMENTS FOR APPOINTED AUDITORS**

The following table outlines the relevant reporting requirements applicable to the appointed auditor of an ADI reporting pursuant to APRA’s ADI Prudential Standard APS 310 *Audit and Related Matters* (APS 310). This table contains only limited extracts from APS 310 and sections 16B, 16BA and 16C of the *Banking Act 1959* (Banking Act) and, accordingly, is not intended to be an exhaustive summary of an appointed auditor’s obligations and requirements which are found in the *Banking Act 1959*, the *Financial Sector (Collection of Data) Act 2001*, APRA Prudential and Reporting Standards, other relevant APRA Prudential Requirements, applicable AUASB Standards, and other relevant mandates.

<b>APS 310 PRUDENTIAL REPORTING REQUIREMENTS</b>				
<b>A. ANNUAL PRUDENTIAL REPORTING ENGAGEMENTS (ROUTINE REPORTING)</b>				
<i>Part of Assurance Engagement</i>	<i>Level of Assurance</i>	<i>Subject Matter</i>	<i>Assessment Criteria</i>	<i>Applicable AUASB Standards</i>
Part A - Audit of Specified <sup>36</sup> ADI Reporting Forms	Reasonable assurance	Information included in specified <sup>36</sup> ADI Reporting Forms at the financial year-end of the ADI, sourced from <i>accounting records</i> .	Concept of reliability. APRA Prudential and Reporting Standards.	Applicable Australian Auditing Standards.
Part B – Review of Specified <sup>36</sup> ADI Reporting Forms	Limited assurance	Information included in specified <sup>36</sup> ADI Reporting Forms at the financial year-end of the ADI, sourced from <i>non-accounting records</i> .	Concept of reliability. APRA Prudential and Reporting Standards.	ASAE 3000.
Part C (i) – Review of Internal Controls over Compliance with Prudential Requirements	Limited assurance	Internal Controls implemented to ensure compliance with all applicable Prudential Requirements.	Applicable Prudential Requirements.	ASAE 3000 and other relevant topic specific ASAEs, for example ASAE 3100.
Part C (ii) – Review of Internal Controls over the Reliability of ADI Reporting Forms	Limited assurance	Internal Controls implemented to ensure <i>all</i> ADI Reporting Forms, that the ADI is required to provide to APRA throughout the financial year, are reliable and in accordance with relevant APRA Prudential and Reporting Standards.	Concept of reliability. APRA Prudential and Reporting Standards.	ASAE 3000 and other relevant topic specific ASAEs.
Part D – Reporting on Compliance with Prudential Requirements	Limited assurance	All of the above.	All relevant Prudential Requirements.	No requirement for an appointed auditor to carry out additional audit or review procedures.

<sup>36</sup> For a listing of ADI Reporting Forms to be subjected to audit and/or review, refer to APRA Prudential Standard APS 310 *Attachment A – Data Collections subject to reasonable and/or limited assurance*.

<b>B. SPECIAL PURPOSE ENGAGEMENTS UNDER APS 310</b>				
<i>Part of Assurance Engagement</i>	<i>Level of Assurance</i>	<i>Subject Matter</i>	<i>Assessment Criteria</i>	<i>Applicable AUASB Standards</i>
-	Limited assurance <sup>37</sup> (review)	A particular aspect of the ADI's operations, prudential reporting, risk management systems or financial position, as determined by APRA and agreed to by the appointed auditor, APRA and the ADI.	In normal circumstances, as agreed to by the appointed auditor, APRA and the ADI.	ASAE 3000 and other relevant topic specific ASAEs, for example ASAE 3100.

<b>ADDITIONAL REPORTING REQUIREMENTS UNDER THE BANKING ACT<sup>38</sup></b>		
<i>Section of Banking Act</i>	<i>Statutory Reporting Requirement</i>	<i>Applicable AUASB Standards</i>
Section 16B	Duty to provide information to APRA on request.	No requirement for an auditor to carry out additional audit or review procedures.
Section 16BA	Requirement to provide information to APRA where the auditor possesses specified reportable information. Section 16BA identifies matters of which APRA needs to be notified of:  (a) immediately; and  (b) as soon as is practicable (no longer than 10 business days).	
Section 16C	Auditor may provide information to APRA where the auditor considers that the provision of such information would assist APRA in performing its functions under the Banking Act or FSCODA.	

<sup>37</sup> Unless otherwise determined by APRA.

<sup>38</sup> Sections 16B, 16BA and 16C of the Banking Act is applicable to *all* auditors of ADIs, authorised NOHCs, or their subsidiaries, not only to auditors appointed by an ADI to meet the prudential reporting requirements under APS 310.

## **APPENDIX 2**

### **EXAMPLE ENGAGEMENT LETTER**

#### **For an Annual Prudential Reporting Engagement Undertaken Pursuant to APRA Prudential Standard APS 310 *Audit and Related Matters (Routine Reporting)***

The following example engagement letter is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the ADI.

[Note: If this report covers both the 'Level 1 ADI' and 'Level 2 group', this fact must be indicated by using the appropriate terminology, that is, 'the ADI' and 'the ADI and its controlled entities' (the Group).]

To [Chairman of Board or Board Audit Committee<sup>39</sup>] of [name of ADI]

The Australian Prudential Regulation Authority's (APRA's) Prudential Standard APS 310 *Audit and Related Matters (APS 310)* identifies APRA's reporting requirements for appointed auditors of ADIs.

We set out below, in general terms, our understanding of the terms, objectives and scope of this engagement, as well as a description of the responsibilities of both those charged with governance of the ADI and the appointed auditor. This engagement is a separate engagement from our audit [and half-year review] appointment(s) under the *Corporations Act 2001* (Corporations Act).

#### **Objective and Scope of Engagement**

APS 310 requires us to report simultaneously, on an annual basis, to APRA and your Board (or Board Audit Committee)<sup>39</sup>, on the matters set out below, insofar as they relate to [name of ADI].

We are required to provide:

- (a) reasonable assurance that the information, sourced from the [type of ADI]'s accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is,

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<sup>39</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with APRA's ADI Prudential Standard APS 510 *Governance*, for overseeing the Australian operations.

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- in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) limited assurance, unless otherwise indicated by APRA in writing, that the information, sourced from non-accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (c) limited assurance that, in all material respects:
- (i) the [type of ADI] has implemented internal controls that are designed to ensure:
- a. compliance with all applicable Prudential Requirements; and
- b. reliable data is provided to APRA in the ADI Reporting Forms prepared under the *Financial Sector (Collection of Data) Act 2001* (FSCODA); and
- (ii) the controls in (c)(i) have operated effectively throughout the financial year; and
- (d) limited assurance, based on our work under (a) to (c) above, that the [type of ADI] has complied, in all material respects, with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year.

Our annual prudential report will cover the same period as the annual financial report required under the Corporations Act and is to be issued within three [four] months of the financial year-end of the [type of ADI].

We are pleased to confirm our acceptance and our understanding of the terms, objectives and scope of our engagement by means of this letter.

## **Responsibilities of the [Title of Those Charged with Governance<sup>40</sup>]**

In accordance with APS 310, it is the responsibility of [name of ADI]'s [Title of those charged with governance] and management to ensure that the [type of ADI] meets prudential and statutory requirements and has management practices to limit risks to prudent levels. This responsibility includes:

- (a) ensuring that the information included in ADI Reporting Forms at the financial year-end is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) establishing and maintaining internal controls that are designed to ensure:
  - (i) the [type of ADI] complies with all applicable Prudential Requirements; and
  - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (c) ensuring that the controls under (b) operate effectively throughout the financial year; and
- (d) ensuring that the [type of ADI] complies with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year.

## **Responsibilities of the Appointed Auditor**

[If applicable: As the statutory auditor of [name of ADI], we carry out sufficient procedures to enable us to form an opinion on the state of the [type of ADI]'s affairs and its results, and to report thereon to the members of the [type of ADI] in accordance with the requirements of the Corporations Act [or other appropriate local or overseas requirements]. Although our audit [and review] under the Corporations Act will include such review of the [type of ADI]'s systems of accounting and internal control and performing such tests and enquiries as we consider necessary, these audit [and review] procedures

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<sup>40</sup> Amend this term to reflect the appropriate title for those charged with governance of the ADI, for example, "Board of Directors" for a locally incorporated ADI or "senior country manager" (a senior officer outside Australia to whom authority has been delegated in accordance with APS 510, for overseeing the Australian operations) for a foreign ADI. Insert appropriate title, when prompted, throughout the letter.

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are not designed to form an opinion on the systems of accounting and internal control taken as a whole.

In order to satisfy the requirements of APRA, we will carry out additional procedures over and above those which are performed in our capacity as the auditor under the Corporations Act [other legislation].

Despite our involvement in examining the [type of ADI]'s systems of control, it must be appreciated that it is the responsibility of the [Title of those charged with governance] of the [type of ADI] to establish and maintain all of the [type of ADI]'s internal control systems. 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, deficiencies, or non-compliance with laws and regulations, although we will report to the appropriate level of management any fraud, error, deficiencies, or non-compliance that may be identified as a result of our review.

We recognise that there may be some overlap between our audit [and review] under the Corporations Act and work that is necessary to fulfil APRA's APS 310 prudential reporting 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 the statutory financial report audit [and review] purposes.]

In order to report on the matters set out in the *Objective and Scope of Engagement* section of this letter, we are required to conduct an audit and review, described in PARTS A to D below, and to report our opinions and conclusions based on our audit and review.

We will conduct our engagement in accordance with applicable Australian Auditing Standards and Standards on Assurance Engagements, and with reference to Guidance Statement GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs)*, issued by the Australian Auditing and Assurance Standards Board (AUASB).

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

After the completion of our prudential engagement report, it is our normal practice to report any matters of significance, together with suggestions for their correction 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 *Objective and Scope of Engagement* section above, you cannot assume that any matters

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reported to you indicate that there are no additional matters or matters that you need to be aware of in meeting your responsibilities.

**PART A: Audit of Information Included in Specified ADI Reporting Forms at the Financial Year-end, Sourced from Accounting Records**

Our responsibility is to express an opinion, based on our audit, on whether the information sourced from [name of ADI]'s accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A to APS 310 is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

We will conduct our audit in accordance with applicable 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 the relevant data included in the specified ADI Reporting Forms are free from material misstatement.

An audit involves performing procedures to obtain audit evidence on whether the information sourced from the accounting records included in the specified ADI Reporting Forms are, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the data in the ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we consider internal control systems and compliance functions relevant to the preparation of the ADI Reporting Forms, in order to design audit procedures that are appropriate in the circumstances.

**PART B: Review of Information Included in Specified ADI Reporting Forms at the Financial Year-end, Sourced from Non-Accounting Records**

Our responsibility is to perform a review of the information sourced from [name of ADI]'s non-accounting records, included in ADI Reporting Forms at the financial year-end as specified in Attachment A to APS 310, and to express a conclusion on whether anything has come to our attention that causes us to believe that this information is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

We will conduct our review in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the AUASB.



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Under ASAE 3000 we are required to comply with relevant ethical requirements relating to assurance engagements.

The objective of our review is to provide us with a basis for reporting whether anything has come to our attention that causes us to believe that the relevant data in the specified ADI Reporting Forms, are not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

Such a review consists of making enquiries of responsible [name of ADI] personnel and applying analytical and other review procedures considered necessary and does not, ordinarily, require corroboration of the information obtained. The scope of a review is substantially less than the scope of 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.

Our review procedures depend on our judgement, including our assessment of the risks of material misstatement of the ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we consider internal control systems and compliance functions relevant to the preparation of ADI Reporting Forms in order to design review procedures that are appropriate in the circumstances.

**PART C:           Review of Internal Controls Addressing Compliance  
with Prudential Requirements and Reliability of Data  
Included in APRA Reporting Forms**

Our responsibility is to perform a review and express a conclusion, based on our review as described below, on whether anything has come to our attention that causes us to believe that, for the financial year ended [date], in all material respects:

- (a) [name of ADI] has not implemented internal controls, that are designed to ensure:
  - (i) compliance with all applicable Prudential Requirements; and
  - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (b) the controls in paragraph (a) have not operated effectively.

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We have conducted our review in accordance with Standards on Assurance Engagements ASAE 3000 and ASAE 3100 *Compliance Engagements*. These ASAEs require us to comply with relevant ethical requirements relating to assurance engagements.

A review consists of making enquiries of responsible personnel and applying analytical and other review procedures considered necessary, and does not, ordinarily, require corroboration of the information obtained. The scope of a review is substantially less than the scope of 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.

Review procedures selected depend on our judgement, including our assessment of the risks of a material breakdown in controls. In making those risk assessments, we consider internal control systems and compliance functions relevant to ensuring compliance with all applicable Prudential Requirements and provision of reliable data to APRA in ADI Reporting Forms prepared under the FSCODA, in order to design assurance procedures that are appropriate in the circumstances.

**PART D: Reporting on Compliance with Prudential Requirements**

Our responsibility is to express a conclusion, based on our work performed under Parts A to C above, on whether anything has come to our attention that causes us to believe that, for the financial year ended [date], [name of ADI] has not, in all material respects, complied with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

**Inherent Limitations**

There are inherent limitations in any internal control and compliance framework, and fraud, error or non-compliance with Prudential Requirements may occur and not be detected. As the systems, procedures and controls to ensure compliance with applicable Prudential Requirements are part of the operations of the [type of ADI], 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 controls of the [type of ADI].

Projection of any evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

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An audit or review is not designed to detect all misstatements in ADI Reporting Forms, or deficiencies in internal controls, or instances of non-compliance with applicable Prudential Requirements, as audit and review procedures are not performed continuously throughout the [period], and audit and review procedures performed are undertaken on a test basis.

Consequently, there are inherent limitations on the level of assurance that can be provided.

**Internal Audit**

[Name of ADI]'s internal audit function is considered well placed to review and test properly documented systems, procedures and controls operating within the [type of ADI]. Consequently, it is our intention to liaise closely with internal auditors throughout the year.

Where work is carried out by internal auditors as part of the [type of ADI]'s internal control procedures, we intend to [may] review the work performed and carry out such re-performance tests and other procedures as we consider necessary. Where we are satisfied with the work carried out by internal auditors, it is our intention to place reliance on such work in accordance with Auditing Standard ASA 610 *Considering the Work of Internal Audit*, and, where appropriate, reduce the extent of our own procedures relating to internal controls.

**Independence**

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

**Special Purpose Engagements**

Under APS 310, APRA may require you, by notice in writing, to appoint an auditor to provide a report on a particular aspect of the [type of ADI]'s operations, prudential reporting, risk management systems or financial position. The details of such an engagement will be the subject of a specific request from APRA and will constitute a separate engagement and reporting. In these circumstances, a separate engagement letter will be issued.

**Liaison with APRA**

Under normal circumstances, liaison with APRA will take place under tripartite arrangements involving APRA, the [type of ADI] and its appointed auditor(s). Notwithstanding the tripartite relationship, APS 310 allows for

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communication between an appointed auditor and APRA on a bilateral basis, at the request of either party. APRA can, although not commonly, request information directly from an appointed auditor. Under APS 510, an ADI is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors from communication with APRA.

**Additional Reporting Responsibilities under the Banking Act**

Under sections 16B, 16BA and 16C of the Banking Act, we are required to provide information to APRA upon request, or where we possess reportable information specified in Banking Act, or where we consider that the provision of information would assist APRA in performing its functions under the Banking Act or the FSCODA.

Part VIA of the Banking Act includes provisions to protect an 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.

**Use of Report(s)**

Our annual APS 310 prudential assurance report and any special purpose engagement report will be prepared for distribution to the [Board, or Board Audit Committee], of [name of ADI] and APRA. These assurance reports will be prepared in accordance with the terms of our engagement letter dated [date], in order to satisfy APRA's prudential reporting requirements for appointed auditor's of ADIs, as specified in APS 310.

In accordance with the *Australian Prudential Regulation Authority Act 1998*, APRA may make our assurance reports available to other specified agencies when APRA is satisfied that such information may assist these agencies in performing their functions or exercising their powers.

These reports are not to be distributed to any party other than [name of ADI], APRA, and other parties that APRA is lawfully entitled to provide relevant information.

We disclaim any assumption of responsibility for any reliance on these reports or the subject matter to which it relates to any party other than the Board, or Board Audit Committee, of [name of ADI], APRA, and other parties that APRA is lawfully entitled to provide relevant information.

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**Fees**

The requirement to report pursuant to APS 310 is in addition to, and separate from, the audit [and review] of financial reports required under the Corporations Act and 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, our invoices will be rendered separately, so as to clearly identify the additional cost of APRA's prudential reporting requirements.

[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 reviews.

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 prudential engagement pursuant to APS 310.

Yours faithfully,

(signed)  
.....

Name and Title

Date

Acknowledged on behalf of [name of ADI] by

(signed)  
.....

Name and Title

Date

## **APPENDIX 3**

### **EXAMPLE MANAGEMENT REPRESENTATION LETTER**

#### **For an Annual Prudential Reporting Engagement Undertaken Pursuant to APRA Prudential Standard APS 310 *Audit and Related Matters (Routine Reporting)***

The following example management representation letter is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the ADI.

[Note: If the report covers both the 'Level 1 ADI' and 'Level 2 group', this fact must be indicated by using the appropriate terminology, that is, 'the ADI' and 'the ADI and its controlled entities' (the Group).]

[[name of ADI] Letterhead]

[Addressee – Appointed Auditor]

[Date]

Dear Sir/Madam

#### **LETTER OF REPRESENTATION**

This representation letter is provided in connection with your audit and review, as required by APRA's Prudential Standard APS 310 *Audit and Related Matters (APS 310)*, of [name of ADI] for the [period] ended [date], for the purpose of you providing:

- (a) reasonable assurance that the information, sourced from the [type of ADI]'s accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) limited assurance, unless otherwise indicated in writing by APRA, that the information, sourced from the [type of ADI]'s non-accounting records, included in the ADI Reporting Forms at the financial year-end as specified in Attachment A of APS 310, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards;

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- (c) limited assurance that, in all material respects:
- (i) the [type of ADI] has implemented internal controls that are designed to ensure:
    - a. compliance with all applicable Prudential Requirements; and
    - b. reliable data is provided to APRA in the ADI Reporting Forms prepared under the *Financial Sector (Collections of Data) Act 2001* (FSCODA); and
  - (ii) the controls in (c)(i) have operated effectively throughout the financial year; and
- (d) limited assurance, based on your work under (a) to (c) above, that the [type of ADI] has complied, in all material respects, with all relevant Prudential Requirements under the *Banking Act 1959* (Banking Act) and the FSCODA, including compliance with APRA Prudential and Reporting Standards during the financial year.

We acknowledge our responsibility for ensuring that:

- the [type of ADI] complies with prudential and statutory requirements and has management practices to limit risks to prudent levels.
- risk management practices are detailed in descriptions of risk management systems and are regularly reviewed and updated, at least annually, to take account of changing circumstances;
- APRA is provided with high-level descriptions of our key risk management systems covering all major areas of risk, and APRA is informed of all material changes to the [type of ADI]'s risk management systems descriptions when they are made;
- adequate internal controls have been established and maintained to ensure:
  - (i) compliance with all applicable Prudential Requirements; and
  - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and

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- the information included in ADI Reporting Forms at the financial year-end is reliable, and in accordance with the relevant APRA Prudential Standards and Reporting Standards;
- you are informed of all Prudential Requirements applicable to the [type of ADI];
- we provide you with access to all data, information, reports and staff of the [type of ADI] that you reasonably believe are necessary to fulfil your role and responsibilities under APS 310. This includes access to the [type of ADI]'s Board, Board Audit Committee and internal auditors as required.

We confirm, to the best of our knowledge and belief, the following representations made to you during your assurance engagement:

*[Include representations relevant to the ADI. Such representations may include the following examples.]*

1. We have made available to you for the purpose of your assurance engagement:
  - (a) all data, information, reports and staff of the [type of ADI] that you have required to fulfil your role and responsibilities under APS 310;
  - (b) access to the [type of ADI]'s Board, Board Audit Committee and internal auditors as required, and related data, minutes of meetings, reports, other information, explanations and assistance necessary for the conduct of the assurance engagement;
  - (c) all correspondence with APRA concerning all Prudential Requirements applicable to the [type of ADI];
  - (d) all policies and procedures (including all changes in the reporting period) that are designed to ensure the [type of ADI] has:
    - (i) complied with all applicable Prudential Requirements; and
    - (ii) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA;



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- (e) all high level descriptions of our key risk management systems covering all major areas of risk, approved by the Board and management, and including all material changes to the risk management systems descriptions issued to APRA during the year; and
  - (f) all other information APRA has provided to the [type of ADI] that may assist you in fulfilling your role and responsibilities under APS 310.
2. There has been:
- (a) no fraud, error or non-compliance with APRA Prudential Requirements that could have a material effect on the reporting of data to APRA under the FSCODA, or compliance with applicable Prudential Requirements;
  - (b) no fraud, error or non-compliance with APRA Prudential Requirements involving management or employees who have a significant role in the internal control structure; and
  - (c) no communications from APRA concerning non-compliance with, or deficiencies in, prudential reporting practices that could have a material effect on your report,
- other than instances that have been provided to you in the course of your engagement
3. We have established and maintained adequate internal control to prevent and detect fraud and error, to ensure the [type of ADI] has:
- (a) complied with all applicable Prudential Requirements; and
  - (b) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA;
4. There has been no breakdown in internal control or non compliance with the policies and procedures which are designed to ensure the [type of ADI] has:
- (a) complied with all applicable Prudential Requirements; and
  - (b) provided reliable data to APRA in the ADI Reporting Forms prepared under the FSCODA,

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other than instances that have been provided to you in the course of your engagement;

5. We have issued to APRA:
  - (a) all high level descriptions of our key risk management systems covering all major areas of risk, approved by the Board and management, and including all material changes to the risk management systems descriptions made during the year; and
  - (b) all information as prescribed by the Prudential Standards for disclosure to APRA within the prescribed period.
6. We have consulted with APRA on all matters such as new business ventures and other initiatives, where prescribed by the Prudential Standards, and provided you with the responses from APRA.
7. We have complied with all prudential and statutory requirements applicable to the [type of ADI] throughout the [period].
8. We have signed [or intend to sign] an unqualified declaration to APRA, from our CEO endorsed by the Board, in accordance with APS 310, attesting that for the financial year ended [date]:
  - (a) the key risks of the [type of ADI] have been identified;
  - (b) systems to monitor and manage those risks have been established including, where appropriate, by setting and requiring adherence to a series of prudent limits, and by adequate and timely reporting processes;
  - (c) the risk management systems are operating effectively and are adequate having regard to the risks they are designed to control; and
  - (d) the descriptions of risk management systems provided to APRA are accurate and current.
9. With respect to ADI Reporting Forms prepared under the FSCODA:
  - (a) the data has been compiled in accordance with the relevant APRA Prudential and Reporting Standards, and related guidance applicable to each form;

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- (b) the Reporting Forms have been resubmitted where assurance engagement adjustments of a material nature were identified;
  - (c) we believe the effects of the uncorrected misstatements identified by you during the assurance engagement, summarised in the accompanying schedule, are immaterial, both individually and in the aggregate, to the ADI Reporting Forms prepared under the FSCODA taken as a whole;
  - (d) there are no material transactions that have not been recorded properly in the records supporting the ADI Reporting Forms; and
  - (e) information in the ADI Reporting Forms, sourced from records other than the [type of ADI]'s accounting records, are prepared from reliable records applicable to the matters to be provided to APRA, in accordance with the applicable guidance provided by APRA.
10. No events have occurred subsequent to the financial year-end date and through to the date of this letter that would require adjustment to, or disclosure in, ADI Reporting Forms.
11. Additional Matters
- [Include any additional matters relevant to the particular circumstances of the engagement.]*

We understand that your examination was made in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements, and was, therefore, designed primarily for the purpose of reporting pursuant to the requirements of APS 310, and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

## **APPENDIX 4**

### **EXAMPLE AUDITOR'S REPORT**

#### **For an Annual Prudential Reporting Engagement Undertaken Pursuant to APRA Prudential Standard APS 310 *Audit and Related Matters* (Routine Reporting)**

The following example auditor's report is to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances of the ADI.

[Note: If the report covers both the 'Level 1 ADI' and 'Level 2 group', this fact must be indicated by using the appropriate terminology, that is, 'the ADI' and 'the ADI and its controlled entities' (the Group).]

To [Chairman of Board or Board Audit Committee<sup>41</sup>] of [name of ADI]

#### **Auditor's Annual Prudential Assurance Report for the Financial Year Ended [date]**

We have performed an audit and reviews, as applicable, pursuant to the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standard APS 310 *Audit and Related Matters* (APS 310) for [name of ADI].

APS 310 requires an ADI to appoint an auditor to undertake an annual assurance engagement, as set out in that Prudential Standard. The responsibilities and reporting requirements arising from this appointment, have been outlined in our letter of engagement dated [date].

[Include only if applicable: "Our audit [and review] of the financial report(s) required under the *Corporations Act 2001* (Corporations Act) [or other appropriate local or overseas legislation] is directed towards obtaining sufficient evidence to form an opinion under the appropriate legislation. Our procedures were not designed to enable us to conclude on other matters required under APRA's Prudential Requirements. 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 [appropriate legislation]."]

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<sup>41</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated, in accordance with Prudential Standard APS 510 *Governance* (APS 510), for overseeing the Australian operations

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**Use of Report(s)**

This report has been prepared for distribution to the [Board (or Board Audit Committee)<sup>42</sup>], of [name of ADI] and APRA. This report is prepared in accordance with the terms of our engagement letter dated [date], in order to satisfy APRA’s prudential reporting requirements for appointed auditors of ADIs, as specified in APS 310.

In accordance with the *Australian Prudential Regulation Authority Act 1998*, APRA may make this report available to other specified agencies when APRA is satisfied that such information may assist those agencies in performing their functions or exercising their powers.

This report is not to be distributed to any party other than [name of ADI], APRA, and other parties that APRA is lawfully entitled to provide relevant information. We disclaim any assumption of responsibility for any reliance on this report or the subject matter to which it relates to any party other than the Board, or Board Audit Committee, of [name of ADI], APRA, and other parties that APRA is lawfully entitled to provide relevant information.

**Responsibilities of the [Title of Those Charged with Governance<sup>43</sup>]**

In accordance with APS 310, it is the responsibility of [name of ADI]’s [Title of those charged with governance] and management to ensure that the [type of ADI] meets prudential and statutory requirements and has management practices to limit risks to prudent levels. This responsibility includes:

- (a) ensuring that the information included in ADI Reporting Forms at the financial year-end is reliable and in accordance with the relevant APRA Prudential and Reporting Standards;
- (b) establishing and maintaining internal controls that are designed to ensure:
  - (i) the [type of ADI] complies with all applicable Prudential Requirements; and

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<sup>42</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with APS 510 for overseeing the Australian operations.

<sup>43</sup> Amend this term to reflect the appropriate title for those charged with governance of the ADI, for example, “Board of Directors” for a locally incorporated ADI or “senior country manager” (a senior officer outside Australia to whom authority has been delegated in accordance with APS 510, for overseeing the Australian operations) for a foreign ADI. Insert appropriate title, when prompted, throughout the report.

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- (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the *Financial Sector (Collection of Data) Act 2001* (FSCODA);
- (c) ensuring that the controls in (b) operate effectively throughout the financial year; and
- (d) ensuring that the [type of ADI] complies with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential Standards and Reporting Standards, during the financial year.

**Appointed Auditor’s Responsibility**

Our responsibility is to conduct an audit and review as required under APS 310, described in PARTS A to D below, and to report our opinions and conclusions based on our audit and review.

**PART A – Audit of Information Included in Specified ADI Reporting Forms at the Financial Year-end, Sourced from Accounting Records**

Our responsibility is to express an opinion, based on our audit, on whether information sourced from [name of ADI]’s accounting records, included in the following ADI Reporting Forms of the [type of ADI] as at [financial year-end] is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards:

[Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to audit or review. Include in the assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment 1 – XX”]

[Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of APS 310, where such forms contain information sourced from accounting records, which have been subjected to audit.

Note: Clearly identify data items within each ADI Reporting Form that have been sourced from accounting records and are therefore the subject matter of this opinion.]

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We have conducted our audit in accordance with applicable 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 as to whether the relevant data, as listed above, is free from material misstatement.

An audit involves performing procedures to obtain audit evidence on whether the information sourced from the accounting records included in the specified ADI Reporting Forms is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards. The procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the data in the ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we considered internal control systems and compliance functions relevant to the preparation of the ADI Reporting Forms, in order to design audit procedures that are appropriate in the circumstances.

[If applicable: We have performed an independent audit [and review] of the financial report of [name of ADI] for the year [half-year] ended [date]. Our auditor's report on the financial report was signed on [date], and [was/was not] subject to modification.]

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

**PART B – Review of Information Included in Specified ADI  
Reporting Forms at the Financial Year-end, Sourced  
from Non-accounting Records**

Our responsibility is to perform a review of the information sourced from non-accounting records, included in the following ADI Reporting Forms of [name of ADI] as at [financial year-end], and to express a conclusion based on our review.

[Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to audit or review. Include in the assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment 1 – XX”]

[Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of

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APS 310, where such forms contain information sourced from non-accounting records, which have been subjected to review.

Note: Clearly identify data items within each ADI Reporting Form that have been sourced from non-accounting records and therefore the subject matter of this conclusion.]

We have conducted our review in accordance with the AUASB's 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 the information in the relevant Reporting Forms as listed above, sourced from non-accounting records, is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

A review consists of making enquiries of responsible [name of ADI] personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards, and consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review procedures selected depend on our judgement, including our assessment of the risks of material misstatement of the ADI Reporting Forms, whether due to fraud or error. In making those risk assessments, we considered internal control systems and compliance functions relevant to the preparation of ADI Reporting Forms in order to design review procedures that are appropriate in the circumstances.

**PART C – Review of Internal Controls Addressing  
Compliance with Prudential Requirements and  
Reliability of Data Included in APRA Reporting Forms**

Our responsibility is to perform a review and express a conclusion, based on our review as described, on whether anything has come to our attention that causes us to believe that, for the financial year ended [date], in all material respects:

- (a) [name of ADI] has not implemented internal controls that are designed to ensure:
  - (i) compliance with all applicable Prudential Requirements;  
and



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- (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (b) the controls in (a) have not operated effectively.

We have conducted our review in accordance with the AUASB's Standards on Assurance Engagements ASAE 3000 and ASAE 3100 *Compliance Engagements*. These ASAEs require us to comply with relevant ethical requirements relating to assurance engagements.

A review consists of making enquiries of responsible personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review procedures selected depend on our judgement, including our assessment of the risks of a material breakdown in controls. In making those risk assessments, we considered internal control systems and compliance functions relevant to ensuring compliance with all Prudential Requirements and provision of reliable data to APRA in ADI Reporting Forms prepared under the FSCODA, in order to design assurance procedures that are appropriate in the circumstances.

**PART D – Reporting on Compliance with Prudential Requirements**

Our responsibility is to express a conclusion, based on our work performed under Parts A to C above, on whether anything has come to our attention that causes us to believe that, for the financial year ended [date], [name of ADI] has not, in all material respects, complied with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

**Inherent Limitations**

There are inherent limitations in any internal control and compliance framework, and fraud, error or non-compliance with Prudential Requirements may occur and not be detected. As the systems, procedures and controls to ensure compliance with applicable APRA Prudential Requirements are part of the operations of the [type of ADI], 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 controls of the [type of ADI].

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Projection of any evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

An audit or review is not designed to detect all misstatements in ADI Reporting Forms, or deficiencies in internal controls, or instances of non-compliance with applicable Prudential Requirements, as procedures are not performed continuously throughout the [period] and procedures performed are undertaken on a test basis.

Consequently, there are inherent limitations on the level of assurance that can be provided.

**Independence**

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

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

**[Basis for Qualified / Disclaimer of / Adverse Auditor's  
Opinion/Conclusion]**

[Provide details or refer to attachment. Appendix 5 of this Guidance Statement provides an example format for reporting these findings.]

**[Qualified / Disclaimer of / Adverse] Auditor's Opinion and  
Conclusions**

**PART A – Audit of Information Included in Specified ADI  
Reporting Forms at the Financial Year-end, Sourced  
from Accounting Records**

In our opinion, the information in the following ADI Reporting Forms of [name of ADI] as at [financial year-end], sourced from the [type of ADI]'s accounting records, is, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

[Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to audit or review. Include in the

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assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment 1 – XX”.]

[Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of APS 310, where such forms contain information sourced from accounting records, which have been subjected to reasonable assurance.

Note: Clearly identify data items within each ADI Reporting Form that have been sourced from accounting records and therefore the subject matter of this opinion.]

**PART B – Review of Information Included in Specified ADI Reporting Forms at the Financial Year-end, Sourced from Non-accounting Records**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the information in the following ADI Reporting Forms of [name of ADI] as at [financial year-end], sourced from the [type of ADI]’s non-accounting records, is not, in all material respects, reliable and in accordance with the relevant APRA Prudential and Reporting Standards.

[Attach all the ADI Reporting Forms, which are the subject matter of this assurance report, to the report, and identify on each ADI Reporting Form the date it was submitted and whether or not the data items have been subjected to audit or review. Include in the assurance report by reference to “the data identified on the ADI Reporting Forms attached under Attachment 1 – XX”]

[Alternatively, list here, or include a reference to an appendix which lists the specific title, number and date submitted of each relevant ADI Reporting Form, based on those specified in Attachment A of APS 310, where such forms contain information sourced from non-accounting records, which have been subjected to limited assurance.

Note: Clearly identify data items within each ADI Reporting Form that have been sourced from non-accounting records and therefore the subject matter of this conclusion.]

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**PART C – Review of Internal Controls Addressing Compliance with Prudential Requirements and Reliability of Data Included in ADI Reporting Forms**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that, for the financial year ended [date], in all material respects:

- (a) [name of ADI] has not implemented internal controls that are designed to ensure:
  - (i) compliance with all applicable Prudential Requirements; and
  - (ii) reliable data is provided to APRA in the ADI Reporting Forms prepared under the FSCODA; and
- (b) the controls in (a) have not operated effectively.

**PART D – Reporting on Compliance with Prudential Requirements**

Based on our audit and reviews in Parts A to C above, nothing has come to our attention that causes us to believe that, for the financial year ended [date], [name of ADI] has not complied, in all material respects, with all relevant Prudential Requirements under the Banking Act and the FSCODA, including compliance with APRA Prudential and Reporting Standards.

[Auditor's signature]

[Date of the Auditor's report]

[Auditor's address]

## **APPENDIX 5**

### **EXAMPLE ATTACHMENT TO THE AUDITOR'S REPORT - MATERIAL FINDINGS OR EXCEPTIONS**

The following example attachment to the appointed auditor's Annual Prudential Assurance Report is to be used as a guide only, and will need to be adapted according to the engagement requirements and circumstances of the ADI.

This attachment accompanies, and forms part of, the example Auditor's Report provided in Appendix 4.

#### **ATTACHMENT 1: MATERIAL FINDINGS OR EXCEPTIONS**

This attachment has been prepared for distribution to the [Board (or Board Audit Committee)]<sup>44</sup> of [name of ADI] and APRA. It accompanies, and forms part of, the Auditor's Annual Prudential Assurance Report dated [date], for the financial year ended [date], prepared pursuant to the reporting requirements specified in APRA's Prudential Standard APS 310 - *Audit and Related Matters*.

- (a) Material Misstatements in ADI Reporting Form(s) not previously advised by the [type of ADI] to APRA

During our audit and/or review of ADI Reporting Forms, we noted the following:

- (i) Errors in Reporting Form XXX

Error: Line [ ]

This error was due to .....

We recommend that .....

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

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<sup>44</sup> Or, for a foreign ADI, a senior officer outside Australia to whom authority has been delegated in accordance with Prudential Standard APS 510 *Governance*, for overseeing the Australian operations.

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- (b) Significant non-compliance with relevant Prudential Requirements under the *Banking Act 1959* and the *Financial Sector (Collection of Data) Act 2001*, including APRA Prudential and Reporting Standards, identified during the financial year and up to the date of signing the auditor's assurance report.
- (i) Matters previously reported to APRA by the appointed auditor:  
.....
- (ii) Matters previously reported to APRA by the [type of ADI]:  
.....
- (iii) Matters not previously reported to APRA:  
.....

[Auditor's signature]

[Date of the Auditor's report]

[Auditor's address]