



## Attachment to AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**     **17.1**

**Meeting Date:**       4 June 2012

**Subject:**             Update to the Board on the proposed Superannuation changes for APRA regulated entities and consideration of a new guidance statement

**Date Prepared:**      21 May 2012

### **APRA regulated Superannuation entities**

#### **Background**

In September 2011, the Australian Prudential Regulation Authority (APRA) released a discussion paper outlining proposals for prudential standards to implement those elements of the Government's reforms that come within APRA's mandate. The discussion describes APRA's proposed approach to introducing prudential standards for the superannuation industry to implement those elements of the Government's Stronger Super reforms that come within APRA's mandate. The AUASB Technical Group presented a paper to the Board in November 2011 to highlight the main changes being made.

APRA invited comments on its proposals and received a significant number of submissions, including one from the AUASB on 23 December 2011 (please refer to Agenda Item 17.5). APRA has summarised all the comments and issued a discussion paper – *Response to submissions: Prudential standards for superannuation* (please refer to Agenda Item 17.3). The draft prudential standards for superannuation were released on 27<sup>th</sup> April 2012, and are expected to be finalised during 2012 with an operative date of 1 July 2013.

The draft prudential standards (refer to Agenda Item 17.4) include six standards covering matters common to other APRA-regulated industries, where APRA's approach has been to harmonise its requirements where appropriate. These standards are:

- Prudential Standard SPS 220 *Risk Management*;
- Prudential Standard SPS 231 *Outsourcing*;
- Prudential Standard SPS 232 *Business Continuity Management*;
- Prudential Standard SPS 310 *Audit and Related Matters*;
- Prudential Standard SPS 510 *Governance*;
- Prudential Standard SPS 520 *Fit and Proper*;

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The remaining five draft prudential standards cover matters that are specific to superannuation. They include reforms that the Government recommended APRA implement as prudential standards, as well as the relocation of some existing requirements and guidance into new standards. These standards are:

- Prudential Standard SPS 114 *Operational Risk Financial Requirement*;
- Prudential Standard SPS 160 *Defined Benefit Matters*;
- Prudential Standard SPS 250 *Insurance in Superannuation*;
- Prudential Standard SPS 521 *Conflicts of Interest*; and
- Prudential Standard SPS 530 *Investment Governance*.

### **Key requirements**

Some of the key requirements of the draft prudential standards are summarised below:

#### **SPS 220 Risk Management**

1. The Risk Management Framework will be subject to a comprehensive review at least every 3 years and subject to a regular compliance audit.

#### **SPS 231 Outsourcing**

2. The internal audit function must review any proposed outsourcing of a material business activity and regularly review and report to the Board or audit committee.

#### **SPS 310 Audit and Related Matters**

3. The auditor needs to audit the financial statements and certain APRA annual returns and provide a report to the RSE licensee within four months after the year end.
4. The terms of engagement must be set out in a legally binding contract.
5. The auditor needs to comply with relevant standards and guidance statements issued by the AUASB.
6. The auditor must qualify the report for material breaches, as defined by the AUASB.
7. The RSE licensee must take reasonable steps to obtain any information and documentation that APRA asks of it and provide that information to APRA.

#### **SPS 510 Governance**

8. The Board Remuneration Committee and the Board Audit Committee must be established and approved by the Board and must each have at least 3 members all of whom must be non-executive directors.
9. The Board Audit Committee must review the engagement of the auditor at least annually and ensure that the auditor meets the independence tests in APES110.

10. The Board Audit Committee must regularly review the internal and external audit plans and be available to meet with APRA on request.
11. The RSE licensee must have a dedicated internal audit function, its main objectives being the evaluation of the adequacy and effectiveness of the financial and RMF of the RSE licensee.

#### **SPS 114 Operational Risk Financial Requirement**

12. The RSE licensee must determine a tolerable limit below the operational risk financial requirement (ORFR) that, if financial resources held to meet the ORFR were to breach this limit, would require the RSE licensee to notify APRA and implement a replenishment plan.
13. The RSE licensee must implement a replenishment plan if the level of financial resources held to meet the ORFR falls below the tolerance limit and it needs to be approved by the Board.

#### **SPS 160 Defined Benefit Matters**

14. The RSE licensee must arrange for an actuarial investigation to be made at least annually if the fund has fewer than five members or at least every three years if the fund has more than four members.

#### **SPS 250 Insurance in Superannuation**

15. The RSE licensee must ensure it has sufficient and appropriate resources to manage and monitor the relationship with the insurer.

#### **SPS 530 Investment Governance**

16. The RSE licensee must determine appropriate investment risk and return measures approved by the Board to monitor the performance of investments (including stress-testing program).

The AUASB Technical Group has highlighted the main points, main changes and Audit and Assurance Implications of all the standards in a matrix (please refer to Agenda Item 17.2).

#### **Next Steps for AUASB to consider**

Following the Cooper Review recommendations, the introduction of the Superannuation Legislation Amendment Bill 2012 (which provides APRA with prudential standards-making power for RSEs), the draft suite of APRA superannuation prudential standards and the increased market pressure for stronger regulation and oversight of the superannuation sector, all support the need for the AUASB to consider more comprehensive guidance for auditors of RSEs.

The AUASB Technical Group recommends one new guidance statement that covers all audit and assurance related matters for auditors of RSEs, including RMSF requirements be considered by the Board. The Board will be provided with a full project plan with consideration of the Project Advisory Group at the July 23<sup>rd</sup> Board meeting.

#### **Recommendation**

1. Subject to APRA finalising the prudential standards for superannuation by December 2012, the Board is asked to consider the need for a new guidance Statement on Audit and Related Matters and Risk Management Framework for auditors of RSE licensees. This would subsume GS 002 *Special*

*Considerations in the Audit of Risk Management Requirements for Registrable Superannuation Entities and Licenses.*

2. The AUASB Technical Group request that the Board provide any comments on the draft prudential standards so this can be incorporated where appropriate into an in confidence response to APRA.
3. The AUASB Technical Group will provide APRA with some in confidence comments on the APRA draft prudential standards where there are substantial issues to be raised. These will be circulated to the Board out-of--session for comment prior to 20 July 2012 deadline.