

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE APRA ANNUAL REPORT 2019

APRA04QW: In an article in the Australian Financial Review on 3 August 2019, Edmund Tadros reported that NAB, unlike other banks, had engaged its auditor to write an independent prudential report for APRA. Does this concern APRA? If so, is it APRA's view that banks should not be allowed to use their auditor to write reports of this kind in future?

The article also reported that NAB had pressured EY to tone down the language in the report. Does APRA know whether or not this actually occurred? If it did, does APRA believe that it should be banned in future?

Answer:

This Australian Financial Review article relates to the 2018 comprehensive review of NAB's risk management framework. Prudential Standard CPS 220 *Risk Management* (CPS 220) requires such a review to be performed at least once every three years. APRA's prudential standard requires the review to be performed by operationally independent staff. Accordingly, the external auditor's firm is not precluded from conducting the engagement. The results of the CPS 220 review must be reported to the institution's Board Risk Committee.

Under CPS220, the comprehensive review is undertaken specifically for the bank, not for APRA. There is no requirement under CPS220 that the report be provided to APRA. While APRA supervisors do obtain and review this report, it is incorrect to refer to this as an independent prudential report for APRA. This report, however, would be used as input by the NAB in the preparation of their Annual risk Management Declaration to APRA.

The NAB engaged EY to conduct this review in accordance with a Statement of Work dated 30 April 2018. EY is also the external auditor of the NAB. The lead partner who audited NAB was not the same partner who conducted the CPS 220 risk management engagement. This arrangement is compliant with CPS 220.

We are not aware of evidence that the NAB pressured EY to inappropriately modify the drafting of the report. We note that the EY report identified deficiencies, and determined that the NAB's risk management framework was "partially effective".

In light of recent experience and international developments relating to auditing and consulting services being provided by the same firm and potential conflicts of interest, APRA is considering clarifying and strengthening its audit related requirements in Prudential Standards CPS 510 *Governance*, CPS 520 *Fit and Proper* and CPS 220.