

Answer to question in writing:

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE APRA ANNUAL REPORT 2019

APRA15QW:

Every 3 years APRA requires all banks to organise a review of their risk management framework. The requirement is known as prudential standard CPS220 and it states that the review must be conducted by 'operationally independent, appropriately trained and competent' people.

- a) Did APRA ratify NAB's decision to engage EY to perform the CPS220 review?
- b) How did EY satisfy the 'operationally independent' criteria for performing the CPS220 review when they've been NAB's external auditor for the last 13 years and have a deep understanding and knowledge of NAB operations?
- c) Is APRA aware of the close working relationship between NAB and EY when performing the CPS220 review and preparing the report? Did NAB disclose and explain these interactions to APRA?
- d) Has APRA expressed concerns to either NAB or EY about the currency of the CPS220 report after media reports EY had 'watered down' its findings? If not, why not?
- e) Does APRA now have concerns about the currency of the CPS220 reviews performed by EY for the other major banks or APRA regulated entities?

Answer:

- a) APRA did not approve or ratify NAB's decision to engage EY to perform the CPS220 review. There is no requirement to do so.
- b) 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. NAB engaged EY to conduct this review in accordance with a Statement of Work dated 30 April 2018. The lead partner who audited NAB was not the same partner who conducted the CPS 220 risk management engagement.
- c) 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 or that the bank provides disclosure around interactions with the reviewers. However, APRA has obtained and reviewed this report, and it has been used by NAB in preparation of their annual risk management declaration to APRA.

- d) APRA has not expressed concerns to either NAB or EY about the currency of the CPS220 report. The EY report identified deficiencies at NAB, and determined that the implementation of NAB's risk management framework was "partially effective". This is consistent with the findings of APRA reviews.
- e) APRA does not have concerns about the currency of the CPS220 reviews performed by EY for the other major banks or APRA regulated entities. APRA believes the reports act as a useful input into the banks' preparation of their Annual Risk Management Declaration to APRA.