

Parliamentary Joint Committee on Corporations and Financial Services

ANSWERS TO QUESTIONS ON NOTICE

7 February 2020

Question No: 03

Topic: APRA – ASIC relationship

Reference: Hansard page 73

Question:

Senator O'NEILL: Can I ask you to consider on notice the complex question about the intersectionality of CPS 220, risk reports—which are provided annually to the board and triennially to APRA—your relationship with APRA, APRA's capacity to better provide input that might affect audit quality, and annual reporting.

Mr Price: Yes, we can provide you with how the ecosystem works now. Obviously, broader policy questions like whether or not there should be a prohibition against registered company auditors providing, from that same firm, CPS 220 reports are not something we can opine on. That's really a policy matter for this committee and the government. But we can certainly give you a factual overview of how all the various bits intersect at the moment.

Senator O'NEILL: Can I ask you to do one thing on top of that. I understand your reluctance to deliver a policy framework for us, but clearly there are fixes about connectivity there that need to be considered. I would very much appreciate, given your expertise, the suggestion of possible ways in which a benefit might be achieved by a change to the current practices of communication, in the interests of the public.

Mr Price: We will do what we can without straying into policy advice.

Answer:

The CPS 220 report informs the Board of Directors of a bank in their assessment of the risk management systems of the bank. Such systems (rather than the report) may be relevant to information appearing in the bank's financial report. For example, the systems may produce information relevant to the level of loan loss provisioning.

The process of auditing a financial report includes:

- (a) *Identifying and assessing relevant inherent and control risks.* The auditor obtains an understanding of the business(es) of the entity to be audited, and gains a high level understanding of systems, processes and controls for the production of information that supports the financial report. To identify relevant risks, the auditor has regard to both internal and external factors. This would typically lead to consideration of a wide range of relevant information and findings from the work of any internal auditors or any reviews of risk management undertaken by an audit firm including in any CPS 220 reports, and relevant matters considered by any audit or risk committee of the board. This process may also indicate deficiencies in systems, processes and controls;
- (b) *Determining the nature, timing and extent of audit procedures designed to obtain reasonable assurance that the financial report is free of material misstatement.* The auditor then determines whether to rely upon the company's internal controls. The extent of substantive testing will be greater where the auditor does not rely on

controls and where the auditor had identified relevant risks. The auditor may also change the nature and timing of substantive procedures to respond to assess risks. Substantive procedures involve obtaining sufficient and appropriate audit evidence concerning matters such as the existence, ownership, completeness, valuation and accuracy of assets, liabilities, income and expenses in the financial report;

- (c) *Executing the audit procedures in accordance with the plan developed in (b).* This includes reviewing and testing relevant systems and controls, as well as performing substantive testing;
- (d) *Evaluating the findings from the audit procedures performed.* Issues identified may necessitate corrective action by management; and
- (e) *Form an opinion based on the audit work performed and issue the audit report.*

We have arrangements with APRA for information sharing to support our respective regulatory remits and work. This is supported by an updated memorandum of understanding that was released on 28 November 2019 (MoU). The updated MoU flows from an active review by APRA and ASIC as to how information sharing arrangements operate in practice and how information sharing can be enhanced.

Regular meetings on information sharing between ASIC and APRA with the active involvement of ASIC Commissioners and APRA Board members commenced in July 2019. These meetings are supported by joint standing committees and ad hoc working groups.

In December 2019 the Government released an exposure of draft legislation intended to remove barriers to efficient cooperation and information sharing between ASIC and APRA. The draft bill would amend both the Australian Securities and Investments Commission Act 2001 and the Australian Prudential Regulation Authority Act 1998 to require:

- APRA and ASIC to cooperate with each other;
- APRA and ASIC to share information with each other on request; and
- Each regulator to notify the other when it believes that a material breach may or has occurred in respect of a law which the other regulator administers.

ASIC will continue to work with Treasury prior to the introduction of the legislation.

We understand that, under existing arrangements, APRA will communicate to ASIC any matters arising from CPS 220 reports or other information sources that it believes may be important to ASIC's regulatory activities, including ASIC's regulation of financial reporting and auditors.