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General Manager, Policy
Australian Prudential Regulation Authority
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Dear Sir or Madam

Request for Comment on the Superannuation prudential framework - consequential audit updates

Ernst & Young Australia ('EY') is pleased to comment on the above proposed updates.

Our detailed feedback in relation to the suggested changes is attached in Appendix A to this letter. We have outlined areas where the implementation of the proposed changes will be challenging and will require further consideration or guidance.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact [REDACTED] on [REDACTED] or [REDACTED].

Yours faithfully

Ernst & Young

Appendix A

1. Specific matters for consideration

1.1 Scope expectations

As you have indicated, the removal of the APRA approved form will result in reasonable assurance applying more broadly to compliance with RSE licensee law, rather than to specific identified legislative provisions.

The proposed amendments currently require the form of assurance to be provided as reasonable assurance.

Under the previous requirements the RSE auditor issued three opinions/conclusions under SPS 310:

- a) An Independent audit report on the financial statements;
- b) An Independent Auditor's Reasonable Assurance report on certain sections of the SIS Act, SIS Regulations, Corporations Act, Corporations Regulations, APRA reporting forms (where the data was sourced from the audited financial statements) and compliance with Prudential Standard SPS 114 *Operational Risk Financial Requirement*;
- c) Independent Auditor's Limited Assurance report on APRA reporting forms (which did not contain information sourced from the audited financial statements) and on controls and compliance with the RMF, FSCOD Act and prudential standards.

In order to provide reasonable assurance an auditor is required to gather sufficient appropriate audit evidence based on an assessment of risk and materiality to support the auditor's opinion.

In the case of reasonable assurance engagements; sufficient appropriate audit evidence would require the auditor to perform a test of controls and test of details. The test of details component would require obtaining physical or electronic documented evidence, and differing sample sizes depending on the frequency of the control/process. Additionally, under auditing standards, we can provide reasonable assurance when information can be sourced from accounting records (e.g. financial statements, general ledger, etc.).

Obtaining this level/type of evidence across all RSE licensee law and APRA reporting forms where the data is not sourced from the audited financial statements will substantially increase the time to conduct an audit and consequentially the cost of the audit and in some instances cannot be achieved.

It should also be noted that a reasonable assurance opinion is normally driven by the objective or purpose of the assurance engagement, rather than professional judgement.

In our view, retention of the opinion type as limited assurance would be more appropriate for the nature of this work. The evidence gathering procedures for limited assurance is deliberately limited in comparison with a reasonable assurance engagement. This may be satisfied via test of design of controls only.

Our proposal of limited assurance is supported by precedents from other APRA regulated industries. As you indicate "these changes aligns to the capabilities of a maturing superannuation industry and is consistent with other APRA-regulated industries." You also indicate "The intent of the proposed changes is to improve audit quality and efficiency. The changes provide an opportunity for a more risk-based approach and should not be viewed as a reduction in audit scope, or an expectation of a substantive increase in audit work."

Like RSE's, Authorised Deposit Institutions (ADI) and Insurance companies are also required to comply with Prudential Requirements. Reasonable assurance is provided for ADIs and insurers over

APRA reporting sourced from accounting records (i.e. general ledger); APRA reporting forms with data not sourced from the general ledger, including other legislative requirements, are subject to limited assurance. The ADI audit opinion, for e.g., includes the following wording that specifies requirements and scope of work covered by the audit: 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 30 June XX, [CLIENT] Bank Limited 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.”*

Alignment to the ADI and Insurance audit approach will ensure consistency across the APRA Regulated entities.

1.2 Members’ Best Financial Interest Duty (‘BFID’)

In accordance with the Your Future, Your Super reforms, trustees must exercise their duties and powers in the best financial interests of members.

Should APRA proceed with the proposed amendments, the cost and effort to RSEs will be significant due to the effort that trustees will need to spend in the provision of audit evidence to satisfy a reasonable assurance audit opinion. Similarly, we would expect an increase in overall audit costs. The members of the superannuation fund will bear any additional costs.

1.3 Retirement of Superannuation Practice Guide SPG 310 Audit and Related Matters

The removal of the SPG 310 will remove guidance in relation to certain responsibilities of both the RSE licensee and RSE auditor with respect to the following matters. These sections will impact the opinions covering the compliance with RSE Licensee law and the financial statements. The new provisions under the Corporations Act do not consider these.

- *(SPG 310 section 7) - Where different RSE auditors are engaged for different components of the audit of an RSE and scope of work of each RSE auditor is accurately reflected in terms of engagement in separate auditor reports.*

Additional guidance will be required around the application of the above as this occurs in practice. There are examples across the industry where the RSE Licensee auditor and the auditor of the RSE are two separate firms.

- *(SPG 310 section 9) - Where the year of income is different for the RSE licensee and RSE, the RSE Licensee would ordinarily ensure that the RSE auditor provides only one auditor’s report in respect of the year of income of the RSE.*

Additional guidance will be required around the application of the above as this occurs in practice. There are examples across the industry where the RSE Licensee’s year end date is different to the RSE’s year-end date.

- *(SPG 310 section 10) - Where a new RSE is registered but operates with no members or assets for an initial period, the RSE licensee would be expected to submit an auditor’s report for the RSE even though the audit may cover nil figures.*

Will ASIC require this? The Corporations Act do not consider the above.

- *(SPG 310 section 15) - Delays can be associated with the process of winding up an RSE. In this situation, APRA’s view is that an RSE licensee would appoint the RSE auditor for routine engagements required under SPS 310 for each year of income including the final year of income, being the year in which the RSE is wound up.*

- *(Wind-up section under Attachment A) Where an RSE has wound up, APRA expects that the auditor's report would, at a minimum, cover the information outlined in Reporting Standard SRS 602.0 Wind-up in place of the requirements in paragraph 19(a)(ii) of SPS 310. The requirements of paragraph 19(b)(i) of SPS 310 are not required to be addressed in the auditor's report of an RSE that has wound up.*

Confirmation will be required from APRA and ASIC if the above requirements will still apply. Currently the amendments to the Corporations Act do not consider the above and SPS 310 does not refer to wind up audits.

SPG 310 section 15 is also referred to in SPG 227 Successor Fund Transfers and Wind-ups.