



# Prudential Practice Guide

## **SPG 310 – Audit and Related Matters**

December 2013

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## About this guide

Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

*Prudential Standard SPS 310 Audit and Related Matters* (SPS 310) sets out APRA's requirements in relation to the audit of an RSE licensee's business operations. This PPG aims to assist an RSE licensee in complying with those requirements and, more generally, to outline prudent practices in relation to audit arrangements.

For the purposes of this guide, and consistent with the application of SPS 310, 'RSE licensee', 'registrable superannuation entity (RSE)' and 'RSE auditor' have the meaning given in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

The SIS Act and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) also set out various provisions that define the obligations of an RSE licensee when maintaining accounting records.

Subject to these requirements and the requirements of SPS 310, an RSE licensee has the flexibility to structure its business operations in the way most suited to achieving its business objectives. Not all of the practices outlined in this PPG will be relevant for every RSE licensee and some aspects may vary depending upon the size, business mix and complexity of the RSE licensee's business operations.

## Introduction

1. SPS 310 sets out the responsibilities of both the RSE licensee and RSE auditor with respect to the external audit of an RSE.<sup>1</sup> It is the ultimate responsibility of the RSE licensee to ensure that the RSE auditor undertakes their role and responsibilities.
2. This PPG outlines sound practices for an effective external audit framework to assist the Board and senior management to carry out their responsibilities for the sound and prudent management of the operations, financial position and risk controls of the business operations of the RSE licensee.
3. The Auditing Assurance and Standards Board (AUASB) issues guidance statements for audit engagements required under prudential standards, including guidance to RSE auditors on matters relating to the audit of certain annual reporting forms submitted to APRA for the RSE, compliance with legislative provisions, the RSE licensee's systems, procedures and internal controls, risk management framework and operational risk financial requirement (ORFR) strategy required under SPS 310.

## Obligations of RSE licensees – auditor appointment and assessment

4. SPS 310 requires an RSE licensee to annually appoint an RSE auditor. APRA notes that the appointment of an RSE auditor may cover more than one year of income, in which case a prudent RSE licensee would annually confirm that the appointment of the RSE auditor is continuing.
5. Under SPS 310, an RSE licensee must enter into a legally binding contract with the RSE auditor which contains the agreed terms of engagement. The audit engagement letter is typically issued by the RSE auditor in accordance with AUASB standards and guidance. APRA does not require a separate contract in respect of the appointment of an RSE auditor in addition to the audit engagement letter.

6. SPS 310 requires an RSE licensee to ensure that its RSE auditor satisfies fitness and propriety requirements.<sup>2</sup> As part of its assessment of the fitness and propriety of a person to be appointed as an RSE auditor, APRA considers that a prudent RSE licensee would refer to APRA's disqualification register or make enquiries about the RSE auditor more widely without necessarily having to obtain a formal statement from the RSE auditor that they satisfy fitness and propriety requirements.<sup>3</sup>

## Obligations of RSE licensees – auditor's report

7. Where different RSE auditors are engaged for different components of the audit of an RSE, the RSE licensee would be expected to ensure that the scope of work of each RSE auditor is accurately reflected in the terms of engagement and in separate auditor's reports.
8. Where an RSE licensee has multiple RSEs within its business operations, the RSE licensee's systems, procedures and internal controls, risk management framework and ORFR strategy may be applied across all of the RSEs. In such cases, APRA considers that a single audit of the RSE licensee's systems, procedures and internal controls and compliance with the risk management framework and ORFR strategy would be appropriate.
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.
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.

<sup>1</sup> External audit refers to the independent audit and review of an RSE.

<sup>2</sup> Refer also to *Prudential Standard SPS 520 Fit and Proper* and *Prudential Practice Guide SPG 520 Fit and Proper* for requirements and guidance relating to fitness and propriety assessments.

<sup>3</sup> APRA's disqualification register is available on APRA's website.

11. Where an RSE is transferred to a new RSE licensee during a year of income, including where only part of the RSE, e.g. a sub-fund of the RSE, is transferred to a new RSE licensee, APRA expects that the auditor's report would note that the new RSE licensee commenced as trustee for the RSE or sub-fund during the year of income.
12. Where such a change in RSE licensee occurs, APRA expects the new RSE licensee to take responsibility for completion of the auditor's report and ensure that the auditor's report is completed in accordance with paragraph 19 of SPS 310 in respect of the RSE or sub-fund for which it has newly become trustee.
13. In respect of the period prior to the date of change in RSE licensee, APRA considers that the new RSE licensee would use all reasonable endeavours to be fully informed about compliance by the previous RSE licensee and RSE auditor with the requirements under paragraphs 19(a)(iii), 19(b)(ii), 19(b)(iii) and 19 (b)(iv) of SPS 310.
14. Under SPS 310, if APRA approves a form for the auditor's report, the auditor's report prepared by the RSE auditor must be in the approved form. The wording of the approved form must not be varied except where there is an express provision for this to occur on the approved form. Where the RSE licensee believes there are special circumstances in respect of which the approved form, or sections of the approved form, should not apply, the RSE licensee may apply to APRA in writing for approval to vary the wording in the approved form.
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.

## Responsibilities of the RSE auditor – reporting

### Approved form

16. APRA considers that for each year of income the RSE auditor would take reasonable steps to inform themselves of the current form in which the auditor's report is to be provided. Reasonable steps may include referring to APRA's website.
17. If APRA has not approved a form for the auditor's report under SPS 310, APRA expects that the RSE auditor would provide the auditor's report in a form pursuant to AUASB standards and guidance. In such cases, APRA may specify the requirements of paragraph 19(a)(iii) of SPS 310 in a format other than the approved form.
18. Further guidance related to completing the approved form for the auditor's report is set out in Attachment A.

### Audit opinion

19. APRA expects the RSE auditor to consider each compliance requirement contained in paragraph 19(a)(iii) of SPS 310 individually when applying materiality considerations to form an audit opinion. Materiality considerations are expected to be determined in accordance with applicable AUASB standards and guidance.

### Other responsibilities of the RSE auditor

20. Under SPS 310, APRA may request the RSE auditor to provide working papers and other documents to APRA. Working papers and other documents include management letters, working papers which support conclusions made in the auditor's report and other information on audit findings that are provided by the RSE auditor to the RSE licensee. This is also provided for in *Guidance Statement GS 011 Third Party Access to Audit Working Papers* issued by the AUASB.

21. An RSE auditor may retain and provide APRA with access to working papers and other documents in either or both of electronic or hard copy format.

### **Special purpose engagements**

22. Special purpose engagements under SPS 310 relate solely to engagements that are required by APRA and exclude any other engagement requested by the RSE licensee.

### **External audit and internal governance processes**

23. When considering the scope and work involved in the external audit required under SPS 310, APRA expects the RSE auditor to consider the extent to which the work of the internal audit function is likely to be relevant in the context of the external audit.<sup>4</sup> The RSE licensee would then be expected to be guided by the view formed by the RSE auditor.

<sup>4</sup> Refer to *Auditing Standard ASA 610 Using the Work of Internal Auditors* issued by the AUASB.

# Attachment A

## Instruction guide to completing the approved form

### Submission to APRA

1. APRA expects that all parts of the auditor report are submitted simultaneously by the RSE licensee, or by a person on behalf of the RSE licensee<sup>5</sup>, in electronic format to the APRA Responsible Supervisor. This does not preclude the RSE auditor from conducting the audit work required under each part at different times.
2. Subject to agreement with the APRA Responsible Supervisor, the RSE licensee may submit the auditor's report in hard copy format by mail to:

APRA, GPO Box 9836  
In all capital cities  
(except Hobart and Darwin)

### Composing the auditor report using the approved form

3. The approved form contains two versions of the section on audit of the RSE's annual financial statements. The RSE auditor is responsible for determining the appropriate version having regard to whether the RSE is a reporting entity. APRA's view is that all APRA regulated superannuation funds which are not Small APRA Funds (SAFs) should be treated as reporting entities. APRA considers that a SAF is a non-reporting entity only where all members of the SAF are involved in management of the SAF and have access to financial information that is at least of equivalent standard to the type of information provided to members of reporting entities.
4. There is scope for the RSE auditor to include additional material into the approved form where the RSE auditor has been engaged by the RSE licensee to express an audit opinion on additional aspects of its business operations. Such insertions would not limit or detract from the audit opinion provided in accordance with SPS 310.

### Wind up

5. 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.

### Section 155 of the SIS Act

6. The approved form requires the RSE auditor to plan and perform procedures to cover the following risks:
  - (a) where the RSE licensee has used s. 155 of the SIS Act to suspend the issue and redemption of interests, whether such decisions are based on reasonable grounds. In forming a view on what constitutes reasonable grounds, APRA expects that, at a minimum the RSE auditor will:
    - (i) assess the adequacy of the RSE licensee's processes and controls in monitoring compliance with s. 155 of the SIS Act and whether they have operated effectively;
    - (ii) assess the RSE licensee's processes for arriving at the decision, including internal review and sign off mechanisms;
    - (iii) consider whether the RSE licensee's decisions are supported by sufficient evidence of illiquidity in investments, unavailability of current fair values for assets or other relevant factors; and
    - (iv) consider the nature and content of any relevant external advice.

<sup>5</sup> Refer to s. 11C of the SIS Act.

- (b) where there has not been a suspension of interest and the RSE licensee has not used s. 155 of the SIS Act, whether evidence exists to suggest the RSE licensee should have suspended the issue and redemption of interests. In addressing this risk, APRA expects that, at a minimum the RSE auditor will:
- (i) use their knowledge of the RSE, its assets and the environment in which it operates to identify relevant factors and circumstances where s. 155 of the SIS Act should have been invoked;
  - (ii) assess the adequacy of the RSE licensee's processes and controls in monitoring compliance with s. 155 of the SIS Act and whether they have operated effectively;
  - (iii) consider evidence of illiquidity and/or lack of availability of current fair values and assess whether the RSE licensee should have invoked s. 155 of the SIS Act; and
  - (iv) consider the nature and content of any relevant external advice.

Materiality will be an important consideration for the RSE auditor, in particular, in assessing the financial impact of any liquidity or investment valuation issues or errors in the pricing of member interests.



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