



## **Prudential Standard LPS 310**

### **Audit and Related Matters**

#### **Objectives and key requirements of this Prudential Standard**

This Prudential Standard sets out the roles and responsibilities of a life company's Auditor. It also sets out the obligations of a life company to make arrangements to enable its Auditor to fulfil his or her responsibilities.

The ultimate responsibility for providing impartial advice in relation to the operations, financial condition and internal control of a life company rests with the Auditor. This advice is designed to assist the Board and senior management in carrying out their responsibility for the sound and prudent management of the life company.

The key requirements of this Prudential Standard include:

- the life company must make arrangements to enable the Auditor to undertake his or her role and responsibilities;
- the Auditor must prepare the reports required in accordance with the requirements of and timeframes specified in this Prudential Standard;
- the life company must submit to APRA all reports to be prepared by the Auditor;
- the Auditor must audit certain returns of the life company to APRA and provide a report to the Board of the life company; and
- the Auditor must review other aspects of the life company's operations on an annual basis and provide a report to the Board of the life company.

## Authority

1. This Prudential Standard is made under paragraph 230A(1)(a) of the *Life Insurance Act 1995* (the Act).

## Application

2. This Prudential Standard applies to all life companies including friendly societies (together referred to as **life companies**) registered under the Act.<sup>1</sup>
3. This Prudential Standard includes requirements that apply to all auditors appointed under the Act. These requirements are functions of an auditor for the purposes of subsection 83(2) of the Act.
4. This Prudential Standard applies to life companies from 1 January 2013.

## Interpretation

5. Terms that are defined in *Prudential Standard LPS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.

## Obligations of a life company

6. Under the Act, a life company must appoint an auditor (Auditor).<sup>2</sup>
7. A life company must ensure that its Auditor:
  - (a) satisfies the eligibility criteria in *Prudential Standard CPS 520 Fit and Proper* (CPS 520) applicable to an Auditor;
  - (b) is a fit and proper person in accordance with the life company's fit and proper policy as required by CPS 520, including those requirements that apply specifically to the Auditor; and
  - (c) satisfies the auditor independence requirements in *Prudential Standard CPS 510 Governance*.
8. A life company must ensure that its Auditor has access to all relevant data, information, reports and staff of the life company (and must take all reasonable steps to ensure access to contractors of the life company) that its Auditor reasonably believes are necessary to fulfil his or her responsibilities.<sup>3</sup> This will include access to the life company's **Board**<sup>4</sup>, Board Audit Committee and internal auditors as required.
9. A life company must ensure that its Auditor is fully informed of all **prudential requirements** applicable to the life company. In addition, the life company must ensure that the Auditor is provided with any other information APRA has

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<sup>1</sup> Refer to subsection 21(1) of the Act.

<sup>2</sup> Refer to subsection 83(1) of the Act.

<sup>3</sup> Note that under subsection 83(3) of the Act a life company must make any arrangements necessary to enable the auditor to perform these functions.

<sup>4</sup> Or, in the case of an **Eligible Foreign Life Insurance Company**, the Compliance Committee.

provided to the life company that may assist the Auditor in fulfilling his or her role and responsibilities under this Prudential Standard.

10. A life company must ensure that the following are provided to its Board or Board Audit Committee (if not already sighted by the Board or Board Audit Committee):
  - (a) reports, provided by the Auditor in accordance with this Prudential Standard, and any associated assessments and other material prepared in connection with fulfilling the requirements of this Prudential Standard;
  - (b) commentary or responses provided by APRA to the life company on reports provided by the Auditor, and any associated assessments and other material; and
  - (c) any commentary or response on the reports, associated assessments and other material provided by the Auditor that are given by the life company to APRA.
11. A life company, if requested by APRA, must within a reasonable time provide APRA with the terms of engagement, other instructions or correspondence, including management letters, that may have a bearing on:
  - (a) the scope or conduct of the work undertaken by the Auditor in accordance with this Prudential Standard; and
  - (b) the form, content (including findings made or opinions expressed by the Auditor) or coverage of the reports provided in accordance with this Prudential Standard.
12. A life company must submit to APRA the reports referred to in paragraphs 19 and 23. They must be submitted on or before the day that the life company's auditable annual returns are required to be given to APRA in accordance with reporting standards made under the *Financial Sector (Collection of Data) Act 2001* (FSCODA).

### **General requirements**

13. In preparing a report referred to in this Prudential Standard the Auditor must have regard to relevant AUASB Standards and Guidance Statements issued by the Auditing and Assurance Standards Board (AUASB), to the extent that they are not inconsistent with the requirements of this Prudential Standard and other prudential requirements.
14. For the purposes of this Prudential Standard, 'reasonable assurance' and 'limited assurance' are defined in accordance with the *Framework for Assurance Engagements* issued by the AUASB.
15. APRA liaison with an Auditor will normally be conducted under tripartite arrangements involving APRA, the life company and the Auditor. Notwithstanding the tripartite relationship, APRA and an Auditor may meet, at any time, on a bilateral basis at the request of either party.

16. The Auditor, in preparing a report, must not place sole reliance on the work performed by APRA.
17. The Auditor, or an auditor appointed under paragraph 27, must retain all working papers and other documentation in relation to the prudential requirements of the life company for a period of seven years from the date of the report to which the working papers or documentation relate. Where requested to do so in writing by APRA, the Auditor must provide the working papers and other documentation to APRA.
18. Persons involved in the provision of information should note that it is a serious offence under subsection 137.1 and 137.2 of the *Criminal Code 1995* to provide, whether directly or indirectly, false or misleading documents or information to a Commonwealth entity such as APRA.

### **Annual returns to APRA**

19. The Auditor must prepare a report that provides reasonable assurance on the life company's annual returns to APRA, as specified in Attachment A.
20. In particular, the report must specify whether, in the Auditor's opinion, the annual returns are reliable and in accordance with the relevant prudential requirements.
21. The report must also specify whether, in the Auditor's opinion, the prudential requirements in relation to the accounting for statutory funds have been met.
22. The Auditor must provide the report to the life company and address it to the Board of the life company.

### **Review of systems, processes and internal controls**

23. The Auditor must prepare a report that provides limited assurance that the life company has systems, procedures and internal controls that are designed to ensure that the life company:
  - (a) has complied with all applicable prudential requirements; and
  - (b) has provided reliable data to APRA in the reporting forms prepared under FSCODA (including those provided quarterly).

In relation to (a) and (b), the report must also provide limited assurance that these internal controls have operated effectively throughout the financial year of the life company.

24. The report must also provide limited assurance that the life company's systems, procedures and internal controls relating to actuarial data integrity and financial reporting risks (the risks that incorrect source data will be used in completing the reporting forms under FSCODA) are adequate and effective.
25. The Auditor must provide the report to the life company and address it to the Board of the life company.

### **Special purpose engagements**

26. When requested to do so in writing by APRA, a life company must arrange for its Auditor to:
  - (a) undertake a special purpose engagement relating to matters set out in writing by APRA relating to the life company's operations, risk management or financial affairs; and
  - (b) prepare a report in respect of that engagement.
27. A special purpose engagement may be conducted by an auditor other than the Auditor appointed under paragraph 6 but only where this is agreed to by APRA and the auditor satisfies the criteria set out in paragraph 7.
28. The engagement must be completed in accordance with any relevant AUASB Standards and Guidance Statements (as appropriate to the nature of the special purpose review), to the extent that they are not inconsistent with the requirements of this Prudential Standard. Where APRA considers, having regard to the nature of the life company's operations and the purpose of the special purpose engagement, that the engagement should not be completed in accordance with those AUASB Standards and Guidance Statements, APRA may advise the life company in writing that an alternative standard must be used (which is not inconsistent with the requirements of this Prudential Standard and the Act).
29. The cost of a special purpose engagement will be borne by the life company.
30. The auditor must submit the final report to APRA and the Board (or Board Audit Committee) of the life company simultaneously within three months of the engagement being commissioned, unless APRA grants an extension of time in writing.

### **Obligation to report to APRA under the Act**

31. The Act specifies certain circumstances where Auditors are required to report to APRA where a life company or its directors may have contravened the Act or any other law and the contravention may significantly prejudice the interests of the owners of policies issued by the life company.<sup>5</sup>
32. Where a report is made to APRA, the Auditor should not disclose this to the life company if the Auditor:
  - (a) considers that by doing so the interests of policy owners may be jeopardised; or
  - (b) has lost confidence in or mistrusts the Board or senior management of the life company.

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<sup>5</sup> Refer to subsection 88 (2) of the Act.

**Ascertainment of income and outgoings of statutory funds**

33. For the purposes of subsection 47(1) of the Act, income and outgoings of a statutory fund are, respectively, the amounts pertaining to that statutory fund that have the character of income and outgoings in accordance with the provisions of the reporting standards made under FSCODA, as in force from time to time, that provide for accountability for profit and loss.

**Adjustments and exclusions**

34. APRA may, by notice in writing to a life company, adjust or exclude a specific requirement in this Prudential Standard in relation to that company.

**Determinations made under previous prudential standards**

35. An exercise of APRA's discretion (such as an approval, waiver or direction) under a previous version of this Prudential Standard continues to have effect as though exercised pursuant to a corresponding power (if any) exercisable by APRA under this Prudential Standard.

**Attachment A****Auditable annual returns**

The Auditor must provide assurance on the annual data provided to APRA in the forms as listed below. APRA determined these forms in reporting standards made under FSCODA.

	<b>Form Name</b>	<b>Form Number</b>	<b>Level of Assurance</b>
1	Prescribed Capital Amount	LRF 110.1, LRF 110.2	Reasonable <sup>6</sup>
2	Determination of Capital Base	LRF 112.0, LRF 112.1, LRF 112.2	Reasonable
3	Related Party Exposures	LRF 112.3	Reasonable
4	Asset Risk Charge	LRF 114.0	Reasonable
5	Derivatives Activity	LRF 114.2	Reasonable
6	Off-balance Sheet Business	LRF 114.3	Reasonable
7	Insurance Risk Charge	LRF 115.0, LRF 115.1	Reasonable
8	Asset Concentration Risk Charge	LRF 117.0	Reasonable
9	Operational Risk Charge	LRF 118.0	Reasonable
10	Capital Adequacy Supplementary Information	LRF 200.0	None
11	Statement of Financial Position	LRF 300.1	Reasonable
		LRF 300.2	Reasonable
12	Income Statement	LRF 310.1	Reasonable
		LRF 310.2	Reasonable
13	Summary of Revenue and Expenses	LRF 330.0	Reasonable
14	Retained Profits	LRF 340.1	Reasonable
		LRF 340.2	Reasonable
15	Statement of Policy Liabilities	LRF 400.0	None
16	Assets Backing Policy Liabilities	LRF 420.0	None
17	Sources of Profit	LRF 430.0	None

<sup>6</sup> Reasonable Assurance is defined in the *Framework for Assurance Engagements* issued by the AUASB.