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Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

By email: [REDACTED]

Dear [REDACTED]

Request for Comment on the proposed amendments to Prudential Standard SPS 310
Audit and Related Matters ('SPS 310')

Ernst & Young Australia ('EY') is pleased to comment on the proposed amendments to SPS 310. We welcome the opportunity to contribute to improving the quality and integrity of superannuation industry data used in Australia to report to both APRA and fund members.

EY acknowledges that given the increasing importance and size of the superannuation industry, independent assurance is integral to enhancing the degree of confidence you have in the data that Registrable Superannuation Entities (RSEs) report to you.

Based on our detailed analysis of APRA's proposed amendments (as outlined in Appendix A), we consider the proposed changes to be significant to our overall audit scope in terms of degree of audit effort, judgment, and complexity involved. We have also outlined areas where further clarification is required from APRA prior to formalisation of the SPS 310 amendments.

Given the significance of these changes and the broad range of areas of clarification required from APRA, we recommend that the effective date for these changes is not before the year commencing 1 July 2022, to allow RSEs adequate time to enhance the control environment supporting the new APRA returns.

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 Practical implications for the completion of audit procedures over the new in scope returns for the period 30 June 2022.

The preparation of the new in-scope APRA forms requires a significant investment on RSEs' part and remains a work in progress, with many SRFs continuing to be prepared on a 'best endeavours' basis for the 30 June 2022 financial year. Based on our experience and industry discussions, a significant majority of RSEs are in a transition phase in maturing the long term control framework supporting APRA reporting, with heavy reliance placed on tactical solutions to meet APRA's data requirements since the new forms came into effect for the quarter ended 30 September 2021.

Given the infancy of the new forms and industry-wide capacity constraints amplified by the COVID-19 pandemic, licensees have implemented short term solutions to data capture, processing and governance. Long term solutions which would constitute an auditable approach to APRA's data requirements are still work in progress. As a consequence, it would be difficult for any independent auditor to form a conclusion on the design effectiveness of controls in their current state and undertake the data lineage testing in the approach envisaged by APRA (i.e. combination of controls and substantive testing) for the year ended 30 June 2022.

Key considerations are as follows:

1.1.1 Data lineage and data collection challenges

A significant proportion of these data requirements are dependent on a range of service providers (for e.g. investment managers, asset consultants, custodians and investment administrators) and fall outside the range of typical data fields captured within RSEs' general ledgers and custodians' investment administration systems.

The provision of this data is proving to be an ongoing challenge for RSEs given the granularity of APRA's data requirements, necessitating a significant investment of time and effort by RSEs to arrange relevant data capture from these service providers. Based on our industry discussions, RSEs are progressing plans to develop long-term data capture solutions from service providers however such systematic, controlled alternatives to the current suite of temporary, manual work-arounds will not be in place for 30 June 2022.

Where service providers have been unable to meet APRA's data requirements within the regulator's timeframes, discretion and judgment have been exercised by licensees in forming assumptions for the purposes of preparing the new APRA forms. Whilst independent auditors are well versed in evaluating the appropriateness of management's judgment through our financial statement and regulatory audit scopes,

the extent to which management's judgment is exercised in the preparation of the new APRA forms is extensive given the infancy of the forms and the lack of industry convergence since their implementation in September. Some examples include:

- SRF 332.0: definitions of 'significant expenditure' which vary wildly across the industry;
- SRF 550.0: profit split data for unlisted investments which is often difficult to ascertain from asset managers
- SRF 705.0: cost approximation approaches which vary significantly across the industry given trustees' inconsistent policy requirements.

In financial statement and regulatory audits involving similar levels of audit judgment, an independent auditor would take a 'fully substantive' approach without reliance on controls. A fully substantive approach may be the only recourse for auditors in the current year. Given the nature of the forms, the volume of data processing and range of data sources used, such an approach equates to a substantial increase in the time and effort (and therefore cost) of audits compared to the pre-existing SPS 310 scope.

In addition, such an approach would not provide comfort to the regulator that there is effective design and operational controls supporting RSEs' APRA reporting obligations.

Additional time will afford licensees and their service providers the opportunity to expand data gathering capabilities, ameliorate data lineage controls, replace tactical solutions and rationalise the range of data fallback assumptions made in the preparation of the new forms.

1.1.2 Third party service provider control reliance

A material proportion of the data requirements in the new forms is dependent upon RSE service providers as outlined above. As part of our review procedures on data lineage controls, we will need to assess the relevant controls in existence at the service provider for both design and operating effectiveness. Based on our review of key service provider SOC/GS007 controls reports across the industry, no controls report currently addresses APRA's data lineage expectations for the new forms. As such, the existing range of service organisation controls reports would not constitute sufficient and appropriate audit evidence on which the RSE's independent auditor could place reliance and conclude on control effectiveness for the year ended 30 June 2022 with respect to the new forms.

A postponement to the SPS 310 amendments would afford licensees adequate time to work with their service providers to ensure data lineage and other controls supporting the new APRA forms are within the scope of FY23 controls reports, and introduced prospectively for audit by service organisation auditors by 1 July 2022.



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1.1.3 Capacity and resourcing constraints

The impact of the COVID-19 pandemic and associated border restrictions have posed significant resourcing and recruitment constraints across the financial services industry. Based on our own experience, and our industry discussions, audit firms, RSEs and third-party service organisations have struggled to employ qualified and experienced staff to fulfill business-as-usual requirements.

Personnel shortfalls have been amplified by the increase in and implementation of a range of new regulatory and legislative requirements. There is currently a significant volume of competing regulatory change taking place across the sector over the next 12 to 24 months which requires the focus of Finance, Investment, Member Administration, Risk and Compliance specialists and which will continue to drive demand for additional resourcing to ensure successful implementation.

RSEs have attested that to effectively complete the new APRA returns and enhance relevant controls to an auditable standard, and support the audit process; a significant increase in additional resources, time and effort will be required.

Deferring the commencement of SPS 310 amendments to 1 July 2022 or later will afford licensees the opportunity to recruit additional personnel, and importantly train them in the unique requirements and skillsets involved in APRA reporting which are not readily available outside the superannuation industry.

This will also enable audit firms to recruit and train additional audit practitioners who will be required to complete the elevated review and data lineage testing procedures expected by APRA.

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 unchanged for the year ended 30 June 2022, the cost and effort to RSEs will be significant due to the elevated time and effort that trustees will need to spend in assisting auditors in reviewing tactical work-arounds, manual data collection processes and perform data lineage testing for new forms whilst concurrently developing long-term data capture solutions.

A more cost-effective approach aligned with members' BFID would involve audit and review procedures to be conducted on the new forms once RSEs and their service providers have had sufficient time to implement long term data capture and governance solutions and address reporting limitations identified during the forms' first annual reporting cycle.

This will allow the independent auditor to place greater reliance on RSEs' APRA reporting controls and data governance, which would reduce the extent of manual data lineage testing and result in a more cost-effective audit for trustees and their members.



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Similarly, we would expect the significance and number of exceptions identified by review procedures on better controlled forms to reduce, thereby allowing auditor judgment to be exercised and targeted on fewer but key areas of interpretation and data preparation in the new forms.

2. Specific matters for clarification

2.1 Content and form of proposed auditors report

The requested audit report format is not a requirement of current auditing standards and would represent a long-form audit report. Therefore, we request that a separate consultation is completed between APRA and the major audit firms as it relates to the proposed changes.

2.2 Basis for determination of qualification by the auditor (including materiality considerations)

At present the forms have been prepared on a 'best endeavours' basis, and as such, would involve a degree of error higher than what would be the case for pre-existing forms prepared in an effectively controlled environment.

We ask that APRA provides the industry with clarity as to:

- APRA's tolerance for error, and in which circumstances would APRA expect a qualification of our assurance reports with respect to the new forms and data lineage testing;
- APRA's expectations for the auditor's reporting obligations with respect to exceptions identified in our data lineage sample testing;
- APRA's tolerance for the degree of assumptions used by RSEs in preparing the forms and how such assumptions should be reviewed by the independent auditor under a limited assurance standard.

We believe that we should be given the opportunity to identify key assumptions and limitations identified through our review and audit procedures as these will differ by RSE given the infancy of the new forms and lack of industry convergence to date.

2.3 Duration of RSEs' parallel reporting periods

Seven of the pre-existing reporting forms subject to assurance will be superseded by five new reporting forms, and there will be one new reporting form (SRF 332.0 Expenses) added. The new reporting forms came into effect from 17 September 2021 and RSEs are required to complete parallel reporting under the old and new forms for a "short period". The length of this period of parallel reporting, and the transitional arrangements around which reporting forms are to be subject to assurance, will need to be clarified.