



13 June 2018

TO: ATTENDEES OF EFS AUDIT WORKSHOP

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Thank you for attending the Economic Financial Statistics (EFS) data collection audit workshop on 10 May 2018. This letter summarises the discussion and actions arising from the roundtable.

Attendees

- ABS – Fiona Cotsell
- ANZ – Lara Douglas (phone), Rachel Grinham (phone), Rathika Rahuraman (phone)
- APRA – Kaveh Daemi, Juanita Hoare, Greg Matsin, Michael Murphy, Paul Veerhuis
- CBA – Debbie Lucey
- EY – Murray Anderson (phone), David D'Hollander Broodhuis, Brett Kallio (phone) ,
- KPMG – Justin Moore
- MBL – Emily Hasler, Vinay Singh
- NAB – Anita Schneeberger (phone), Kanika Gupta Sikand (phone), Daniel Tait (phone)
- PwC – Jeffrey Choo, Chris Cooper, Sam Hinchliffe
- RBA – Emma Doherty, Emily Perry
- WBC – Andrew Huntley, Gabriela Schaerer

Apologies

- CBA – Alison Croucamp, Michelle Woolford
- EY – Sarah Lowe, Steve Ruggio

Summary of Discussion

The agencies provided an overview of the structure of the workshop, noting that its purpose was to identify areas where reporting institutions and auditors were seeking further clarification, and to discuss the different approaches that could be taken. These different approaches would be considered and serve as inputs into a forthcoming webinar on EFS audit.

Implementation

The topics of discussion related to whether and how EFS data should be considered in APS 310 reports, particularly during the parallel run period and/or in the first year of the EFS collection. In this context, it was noted that the feasibility of providing Part A/B opinions over new EFS data may differ from the feasibility of providing a Part C opinion over controls relating to new EFS data.

Some participants were of the view that a Part C (controls) opinion on the EFS forms based on only one or two months of new EFS data would be of limited value and may offer false comfort due to the small sample size. Once there has been a longer period in which the

controls have been in place, auditors may be in a better position to provide a view on their effectiveness.

Participants also discussed their views on whether domestic books and/or EFS forms should be included in Part A/B opinions during the parallel run. The agencies noted that the existing domestic books forms should continue to be included in audit reports until the forms are ceased, as publications will be based on these data.

Participants noted that the first APS 310 report in which a Part A/Part B opinion is provided on the EFS forms would involve a substantial uplift in effort on behalf of auditors. Deferring this to 2020 would not lessen the uplift in effort but shift it. Participants also noted that inclusion of EFS reports in Part A/B opinions for 2019 audit reports could be challenging for reporting institutions from a practical perspective, e.g. auditing during parallel run could be onerous and reporting entities' efforts may be best placed concentrating on implementation. On the other hand, some participants noted that excluding the EFS forms from 2019 audit reports might be out of place given their importance to the agencies; auditors suggested a "health check" on the implementation of the EFS may be more practical. It was suggested that a second, delayed date for a report on EFS forms may be an alternative way to alleviate pressure on reporting institutions.

Action: Agencies to provide further guidance on expectations for the audit of EFS forms during the parallel run period and/or in the first audit report following the introduction of the new EFS forms.

Interaction between RPG 702.0 and APS 310

The agencies reiterated that, while RPG 702.0 is primarily directed at reporting entities, APRA also expects that auditors will take account of guidance (including RPG 702.0) as part of their auditing of reporting entities. The requirements of the data users are expected to be a consideration when determining materiality for the purposes of audit or review, but the appointed auditor retains discretion in determining materiality. The agencies also recommended that auditors use the prioritisation of data items included in RPG 702.0 to assist in focusing audit efforts on the areas of highest value.

One auditor suggested that, beyond the benchmarks in RPG 702.0, knowledge of the criteria used by the agencies to determine the need for a data resubmission could help determine materiality. The agencies stated that the need to resubmit data is determined on a case by case basis which would prevent using this as a means to help determine materiality.

The audit strategy proposed by one auditor was to apply benchmarks from RPG 702.0 to help form a Part C opinion and apply current methods (consistent with financial statement audit materiality) to determine materiality on data items in specified forms when forming a Part A/B opinion. The application of current audit methods for determining materiality for financial statement items would allow auditors to leverage off work already done in auditing financial statements. However, under this strategy if controls relating to a particular data item or items were found to be insufficient, more substantive work would be done to ensure that the Part A/B opinion was accurate for the relevant items to the level indicated by the benchmarks in RPG 702.0. It was accepted that there were some non-ledger items within the EFS data collection that would require a Part A/B opinion and that these would need to be addressed by some other means.

Action: Agencies to consider whether it is appropriate to provide some guidance on best practice regarding materiality for auditing of EFS forms and/or to provide responses on an individual basis to the audit strategy proposed by an auditor.

Participants suggested that some standard wording could be included in APS 310 reports to assist auditors in outlining how they determined materiality for the EFS collection. This would ensure that entities and agencies were aware of how materiality was determined in each case. It was noted that the intention here was to provide for some industry-wide common language rather than a prescriptive method for determining materiality.

Action: Agencies to consider whether it is appropriate to provide examples of a common language for potential inclusion in audit reports describing how materiality was determined for EFS forms. In keeping with the action item below, this may be more appropriately considered by the AUASB.

Auditors are comfortable applying judgement to balances approaching zero under the EFS data collection and do not believe it would not result in a material change from what they do now. It was noted that some reporting institutions may have concerns to the contrary.

Interaction between RPG 701.0 and APS 310

The agencies shared their expectation that auditors review the controls in place when an entity uses a proxy specified in RPG 701.0 to report a data item and that the proposed proxy was being accurately reported. This expectation did not receive any objections.

The agencies also reiterated that they expected to see an increased volume of data qualifications with the introduction of the new collection, and that they would expect to see these – and any scope limitations – decrease over time as further improvements were made to data quality (and on the basis of the proxies provided in RPG 701.0).

Discussion on the use of the General and Specific Observations Index led to auditors suggesting that the agencies reiterated to reporting entities that these observations were not qualifications but simply allowed auditors to provide a fulsome report to regulators.

Action: Agencies to consider how best to communicate to reporting entities the purpose of the 'General and Specific Observations' index and their recommendation that this index be used to highlight material internal control weaknesses and other reporting issues that are not current year qualifications and to update the agencies on the status of previous qualifications and observations.

Any other business

Auditors suggested that the upcoming implementation of the EFS collection could be an appropriate time to review GS012. More specifically, the existing guidance on materiality – for example, the reference to 25 basis points on capital/risk weighted assets might be updated to provide clarity, and changes to the example report could provide a template for the common language proposed in this meeting.

Action: Auditors and APRA to discuss the potential need for changes to GS012 with the AUASB.