



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
5/2008**

EXTERNAL AUDITS

ARRANGEMENT OF SECTIONS

Part I—Preliminary

1. Short Title
2. Authorization
3. Application
4. Definitions

Part II—Statement of Policy

5. Purpose
6. Scope
7. Responsibility

Part III—Implementation and Specific Requirements

8. Minimum Requirements
9. Prohibited Actions
10. Reporting Requirements

Part IV—Corrective Measures

11. Remedial Measures and Sanctions
12. Additional Measures and Sanctions

Part V—Effective Date

13. Effective Date
14. Questions and enquiries

PART I—PRELIMINARY

- 1) **Short Title** – This standard may be cited as *Superannuation Prudential Standard 5/2008 External Audits*.
- 2) **Authorization** – The Bank of Papua New Guinea (Central Bank) is authorized to issue prudential standards under Section 43 of the *Superannuation (General Provisions) Act 2000* (the “Act”) in relation to prudential matters to be complied with by all Authorized Superannuation Funds (ASFs) and other licence holders.
- 3) **Application** – All ASFs and licence holders licensed by the Central Bank.
- 4) **Definitions** – Terms used within this standard are as defined in the Act, as defined below, or as reasonably implied by contextual usage:
 - a) **“audit”** – for the purpose of this standard, means those audit services that are performed by an external auditor with the objective to examine, verify, confirm and evaluate the financial statements and other information prepared in accordance with appropriate criteria to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and that, in the auditor’s opinion, give a true and fair view, or present fairly, in all material respects the financial condition of an ASF or licence holder.
 - b) **“audit firm”** – means either the firm or entity, including where appropriate its partners, providing audit services or a sole practitioner providing audit services.
 - c) **“external auditor”** – means that person with final responsibility for the audit and/or the audit firm engaged by the Trustee of an ASF or the directors of a licence holder to perform an audit or related services.
 - d) **“licence holders”**- means a licensed trustee, licensed investment manager and licensed funds administrator or any one of them, as the context permits;
 - e) **“management letter”** – means that written communication from the external auditor to the ASF or licence holder management addressing any identified weaknesses in the internal control systems; accounting or record-keeping deficiencies; concerns as to the integrity of financial data or other material matters disclosed during the course of an audit.

Superannuation Prudential Standard 5/2008 External Audits

- f) “**related services**” – comprises reviews, agreed-upon procedures and compilations of financial information as these terms are defined in international auditing standards.

PART II—STATEMENT OF POLICY

- 5) **Purpose** – This standard is intended to ensure that the engagement of external audits and appointment of auditors by ASFs and licence holders provides assurances to the Central Bank as to:
- a) the completeness and accuracy of financial information being reported;
 - b) the adequacy of internal risk management systems;
 - c) compliance with provisions of the Act, prudential standards and other directives issued by the Central Bank and other authorities in PNG;
 - d) the timely reporting of material matters regarding an ASF or licence holder;
and
 - e) the independence of the external auditor.
- 6) **Scope** – This standard applies to all trustees of ASFs licensed and operating in PNG and other licence holders under the Superannuation (General Provisions) Act 2000.
- 7) **Responsibility**
- a) Authorised Superannuation Fund**
 - i) It is the responsibility of the board of directors of the trustee of an ASF to:
 - (1) appoint and engage a qualified, independent person or firm to prepare audited financial statements for the ASF;
 - (2) submit the audited financial statements and other required information to the Central Bank;
 - (3) publish its financial statements; and
 - (4) promptly inform the Central Bank of any information that is relevant to the supervisory oversight of the ASF.
 - b) Licence holders**
 - i) It is the responsibility of the board of directors of each licence holder to:
 - (1) appoint and engage a qualified, independent person or firm to prepare audited financial statements for the licence holder;

Superannuation Prudential Standard 5/2008 External Audits

- (2) submit the audited financial statements and other required information to the Central Bank; and
- (3) promptly inform the Central Bank of any information that is relevant to the supervisory oversight of the licence holder.

PART III—IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8) *Minimum Requirements*

- a) The following minimum requirements shall apply:
 - i) Audits of ASFs and licence holders shall be conducted not less than annually as of the end of the financial year;
 - ii) The audit report and management letter of an audited ASF or licence holder shall be submitted to the Central Bank within 90 days after the end of the financial year;
 - iii) Unless there is in place a written objection issued by the Central Bank, every auditor who is a registered accountant or audit firm whose partners are registered accountants by the Accountants Registration Board of Papua New Guinea and is entitled to practice in PNG, shall be considered to be qualified and approved to audit ASFs or licence holders;
 - iv) An ASF or licence holder shall provide written notice to the Central Bank, within 14 days, if any person ceases to be the auditor of the ASF or the licence holder;
 - v) A tri-partite meeting of representatives of the ASF or licence holder, its external auditor and the Financial System Supervision Department of the Central Bank shall be held, when required by the Central Bank, after receipt of the annual audit report and management letter. When a date is scheduled for the meeting, an agenda shall be prepared by the Financial System Supervision Department and provided to the ASF or licence holder and its auditor;
- b) The auditor and the licence holder's board of directors, executive management and/or an accountant appointed by the Central Bank or other person appointed by the Central Bank as an administrator or statutory manager shall report promptly to the Central Bank at any time that they have reasonable cause to

Superannuation Prudential Standard 5/2008 External Audits

believe the ASF or licence holder to be capital insolvent, or imminently insolvent; is illiquid; whether certain matters exist that may materially prejudice the interests of its members or members of the ASF to which the licence holder is providing services; if the ASF or licence holder is in material breach of the Act or prudential standards; or of any other matter of material concern; and

- c) An ASF's or licence holder's auditor shall provide the Financial System Supervision Department, when requested in writing, full access to and/or copies of its working papers, as defined in international auditing standards, with respect to a particular ASF or licence holder audit within 10 days of such request.

9) *Prohibited Actions*

- a) No ASF or licence holder may:
 - i) appoint and engage an auditor/audit firm if any written objection for cause has been issued by the Central Bank;
 - ii) appoint and engage the same audit partner, i.e. the lead and/or coordinating partner, for more than five (5) consecutive years;
 - iii) appoint and engage an auditor/audit firm to provide advisory or consulting services to an ASF or a licence holder while that same auditor/audit firm is engaged for services to conduct the ASF's or licence holder's annual audit and related services, except that services related to the preparation of an ASF's or a licence holder's corporate tax return are not prohibited; or
 - iv) lend any money or other property to its external auditor or audit firm, irrespective of terms and amount; or provide superannuation or other services on preferential terms to its external auditor or audit firm; or enter into any other business arrangement on preferential terms regarding an auditor or audit firm while such auditor/audit firm is engaged to conduct an ASF's or a licence holder's audit or related services.

10) Reporting Requirements.

a) Each ASF or licence holder and its external auditor shall submit to the Central Bank such reports as the Central Bank may require and in the form and frequency as may be prescribed below:

b) **The ASF**

At a minimum, the following written reports and publications are required to be submitted within 90 days of the end of the financial year:

i) A statement, signed by the chief executive officer and the chairman of the board, as to whether the ASF has complied with the Act, or other relevant acts, prudential standards and other directives issued by the Central Bank and other authorities in PNG;

ii) A declaration by the chief executive officer, and endorsed by the board of directors, as to whether ASF management has –

(1) identified the key financial and operating risks of the ASF;

(2) established systems to control and monitor those risks including, where appropriate, adherence to prudent policies and procedures, to reasonable operating limits and to adequate and timely reporting processes; and

(3) satisfied itself that those risk management systems are operating effectively and are adequate in regard to the risks they are designed to control; and

(4) A declaration as to whether actual or potential conflicts of interest exist with respect to the ASF's engagement of an external auditor which may compromise the independence of the auditor's performance; and

(5) Publication, in a form and content as may be specified by the Central Bank, of the audited statement of condition (balance sheet and a statement of income and expenditures) as of its financial year end.

c) **The licence holder**

At a minimum, the following written reports and publications are required to be submitted within 90 days of the end of the financial year:

Superannuation Prudential Standard 5/2008 External Audits

- i) A statement, signed by the chief executive officer and the chairman of the board, as to whether the licence holder has complied with the Act, or other relevant acts, prudential standards and other directives issued by the Central Bank and other authorities in PNG;
- ii) A declaration by the chief executive officer, and endorsed by the board of directors, as to whether the licence holder management has –
 - (1) identified the key financial and operating risks of the licence holder and in relation to the ASF to which the licence holder is providing services;
 - (2) established systems to control and monitor those risks including, where appropriate, adherence to prudent policies and procedures, to reasonable operating limits and to adequate and timely reporting processes; and
 - (3) satisfied itself that those risk management systems are operating effectively and are adequate in regard to the risks they are designed to control; and
- iii) A declaration as to whether actual or potential conflicts of interest exist with respect to the licence holder's engagement of an external auditor which may compromise the independence of the auditor's performance.

d) **The auditor**

At a minimum, the following written reports and publications are required to be submitted within 90 days of the end of the ASF's or licence holder's financial year, to the Central Bank:

- i) A written report as to the adequacy of and adherence to financial reporting requirements and internal risk management systems; and
- ii) Whether the ASF or licence holder is in compliance, technically and in substance, with provisions of the Act, or other relevant legislations and with prudential standards issued by the Central Bank and other authorities in PNG and whether any exceptions or breaches exist.

PART IV—CORRECTIVE MEASURES

11) Remedial measures and sanctions

- a) If an ASF or licence holder breaches any provision of this prudential standard in a flagrant manner which results, or threatens to result, in an unsafe or unsound condition, or fails to comply with the instructions and reporting requirements, or if there is risk that the existing capital base will be impaired and result in a condition that threatens the interests of members of an ASF or the general public, the Central Bank may pursue appropriate corrective actions and sanctions by imposing or varying conditions on the ASF's or the licence holder's licence as provided in Section 17 of the Act.
- b) Such conditions imposed on a licence under Section 17 may include, but are not limited to, the following –
 - i) Require the ASF or licence holder to take certain steps or to refrain from adopting or pursuing a particular course of action or to restrict the scope of its business in a particular way for a specified period of time; or
 - ii) Suspend or require the removal of any directors, managers or chief executives.

12) Additional measures and sanctions

- a) In addition to the measures in paragraph 11 above which may be taken against an ASF or licence holder, its directors, managers or chief executives, the Central Bank may deny approval for an accountant and the firm which employs the accountant from conducting audits of ASFs or licence holders for purposes of the Act and this standard.

PART V—EFFECTIVE DATE

13) *Effective date* – The effective date of this prudential standard shall be 1 December 2008.

14) *Questions and enquiries*: Questions relating to this prudential standard should be addressed to:

**The Manager
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Bank of PNG
P O Box 121
Port Moresby, N.C.D
Telephone: +675 322 7370, Fax: +675 321 4548**

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**Benny B M Popoitai, MBE
Acting Governor**