

INQUIRY INTO REGULATION OF AUDITING  
SUBMISSION TO THE PARLIAMENTARY JOINT COMMITTEE ON  
CORPORATIONS AND FINANCIAL SERVICES

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October 2019

## SUMMARY

1. An expert and independent external auditor is an essential element in ANZ maintaining the confidence of Australian and international equity investors, wholesale funders and retail depositors, as well as our customers, regulators and stakeholders.
2. ANZ has a comprehensive auditor independence policy to ensure that users of our financial reports can be assured of the integrity of the information that is presented and to meet our statutory obligations.
3. The ANZ auditor independence policy sets out accountabilities, policy objectives and principles, restrictions on non-audit services that may be provided by the ANZ auditor, and other important controls. The ANZ external auditor must not have a mutual or conflicting interest with ANZ, audit its own work, function as part of management or as an employee, or act as an advocate of ANZ. Consistent with statutory obligations, lead auditors may not work with ANZ for more than five years.
4. ANZ's external auditors are not allowed to provide services that are considered to potentially compromise independence. Prohibited services include, for example, development or design of financially related IT systems; preparation of financial or taxation accounting information; legal advice; investigating accounting, liquidation or similar services; and corporate advisory services.
5. ANZ's external auditors are able, with the approval of the ANZ Board Audit Committee, to carry out some audit-related services and a restricted range of non-audit related services. Examples of audit related services include comfort letters in respect of debt issuances or audit of prudential and regulatory returns. Examples of non-audit related services include training or general market or regulatory insight advice.
6. ANZ caps the compensation of external auditors for non-audit services at 5 per cent of audit and audit-related fees for Australia, and 2.5 per cent overseas (with further country specific caps).
7. For the financial year to 30 September 2018, KPMG was paid \$15.4m for Australian audit and audit-related services and its overseas related practices were paid \$7.1m for audit and audit-related services. KPMG and its related overseas practices were paid a total of \$308,000 for non-audit services (or 1.4 per cent of total fees).
8. We consider that the provision of external audit services to the bank requires globally recognised expertise in all areas in which we operate businesses. These operations include retail and commercial banking, private banking and wealth services in Australia and New Zealand; institutional and international transaction banking, loans and

specialised finance and financial market services; and supporting information technology, risk and credit management and other corporate services.

9. ANZ raises funding from international investors and in the leading financial centres, as well as in Australia. Financial reporting and related obligations principally arise in Australian and US law, but also from law in the 34 markets in which we operate. The external auditor will be required to consider whether our reporting meets our obligations in these markets.
10. Given the high level of capacity, expertise and dedicated focus required to perform external audit for a major bank with significant international operations, we believe that few firms in the relatively small Australian market have both the capability and commercial willingness to perform the dedicated function. We consider that the control framework outlined provides critical protections for external audit integrity and independence in this context.

## INTRODUCTION

11. ANZ welcomes the opportunity to make a submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Regulation of Auditing.
12. An expert and independent external auditor is an essential element in ANZ maintaining the confidence of Australian and international equity investors, wholesale funders and retail depositors, as well as our customers, regulators and stakeholders. The following sections of the submission briefly describe the role of the external auditor, our independence policy, auditor compensation and caps, and the capabilities required of our external auditor.

## ANZ AUDITOR ROLE

13. As set out in the Australian accounting and auditing standards, the purpose of an external audit is to:
  3. *The purpose of an audit is to enhance the degree of confidence of intended users in the financial report. This is achieved by the expression of an opinion by the auditor on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.*<sup>1</sup>
14. The overall objectives are:
  11. *In conducting an audit of a financial report, the overall objectives of the auditor are:
    - (a) *To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework; and*
    - (b) *To report on the financial report, and communicate as required by the Australian Auditing Standards, in accordance with the auditor's findings.**
  12. *In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial report, the Australian Auditing Standards require that the auditor disclaim an opinion or withdraw (or resign)*

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<sup>1</sup> Auditing and Assurance Standards Board (2015), *Auditing Standard ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 3.

*from the engagement, where withdrawal is possible under applicable law or regulation.<sup>2</sup>*

15. The services provided by external auditors are subject to range of statutory obligations with respect to independence and related obligations.<sup>3</sup> External auditors are required to provide an independence declarations to Directors.<sup>4</sup> They are required where they become aware of a conflict of interest to take all reasonable steps to ensure that the conflict of interest situation ceases and have ASIC reporting obligations.<sup>5</sup>
16. External auditors are also subject to the Accounting Professional and Ethical Standards Board, 110 Code of Ethics for Professional Accountants (including Independence Standards).<sup>6</sup> External auditors are required to apply safeguards in their dealings with audit clients to address threats to independence; for example, arising out of self-interest, self-review, advocacy, familiarity and intimidation.

## ANZ AUDITOR INDEPENDENCE POLICY

17. ANZ has a comprehensive auditor independence policy ("policy-on-relationship-with-external-auditor" (refer Attachment 1).<sup>7</sup> This policy assists ANZ to meet its statutory obligations and recognises that independence is fundamental to the credibility and reliability of our financial reports to investors and other interested parties.
18. The ANZ auditor independence policy sets out accountabilities, policy objectives and principles, restrictions on non-audit services that may be provided by the ANZ auditor, and other important controls.
19. The ANZ Board Audit Committee is responsible for the appointment, compensation, retention and oversight of the external auditor. The external auditor provides reports directly to the Audit Committee. The Audit Committee responsibilities include undertaking an external audit independence assessment every year and pre-approving all audit and non-audit services provided by the external auditor either on an engagement by engagement basis or pursuant to specific pre-approval policies adopted by the Audit Committee.

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<sup>2</sup> Ibid. paragraphs 11-12.

<sup>3</sup> *Corporations Act 2001* (Cth) ch 2M.

<sup>4</sup> *Corporations Act 2001* (Cth) s 307C.

<sup>5</sup> *Corporations Act 2001* (Cth) ch 2M div 3.

<sup>6</sup> Refer

[https://www.apesb.org.au/uploads/home/02112018000152\\_APES\\_110\\_Restructured\\_Code\\_Nov\\_2018.pdf](https://www.apesb.org.au/uploads/home/02112018000152_APES_110_Restructured_Code_Nov_2018.pdf)

<sup>7</sup> Refer public summary at <https://www.anz.com/documents/au/policies/policy-on-relationship-with-external-auditor.pdf>

20. Important principles in the ANZ auditor independence policy include that the external auditor should not:
- Have a mutual or conflicting interest with ANZ.
  - Audit its own work.
  - Function as part of management or as an employee.
  - Act as an advocate of ANZ.
21. The Audit Committee may pre-approve certain audit and audit related services that are not perceived to impair or impact the independence of the external auditor, nor breach other auditor independence principles. For example, they include:
- Provision of accounting procedures advice; for example, in relation to reporting in ANZ's financial statements; merger, acquisition or disposal transactions; or financial information provided by other parties.
  - Audit, attest or review services required for regulatory returns or requirements, including statutory audits.
  - Provision of comfort letters to underwriters regarding accuracy of financial disclosures by ANZ.
  - 'Procedures' engagements related to accounting and other records required to respond to or comply with financial, accounting, taxation or regulatory reporting matters.
22. The ANZ audit independence policy prevent the external auditor from providing a wide range of services. The services the external auditor may not provide include:<sup>8</sup>
- All services related to the preparation of accounting records or financial statements.
  - Support for the preparation of regulatory and taxation returns, such as data gathering and review of historic records.

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<sup>8</sup> The external auditor may undertake audits of each of these areas, and so should not be put in a position to audit areas in which they have undertaken work.

- Preparation of taxation returns or services involving altering financial data (for example, by way of journal entry).
- Tax planning and strategy, or interpretation of tax legislation and its application to ANZ.
- Investigating accountant, receiver, liquidator or related services.
- Designing or implementing new IT or financial systems or financial controls; and assessment, design and implementation of internal accounting controls and risk management controls.
- Appraisal or valuation services, or actuarial services.
- Human resources - recruitment of ANZ staff
- Broker, dealer, investment adviser or investment banking services.
- Legal services or Expert services.
- Internal audit work relating to accounting controls, financial systems or financial statements.
- Advice on product structuring.
- Review of legislation and advice on its application to ANZ.
- Advice on or assistance with mergers, acquisitions, and deal structuring.
- Accounting services for banking syndicates where ANZ makes the appointment or has significant influence over the appointment.

23. ANZ also requires that the lead partner involved in the external audit should not remain in a key audit role beyond a period of 5 years and should not return to the audit team for a further five years.<sup>9</sup> Any potential appointment of ex-employees of the external auditor to the ANZ finance staff must be approved by the Chairman of the Audit Committee. A two year "cooling off" period is required before any partner or employee of the external auditor is appointed as a Director or Senior Executive of ANZ.

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<sup>9</sup> *Corporations Act 2001* s324DA mandates for audits of (ASX) Listed entities a maximum 5 years for those that place a 'significant role' (i.e. Engagement Partner) in the audit, with a two year rotation. The ANZ policy of a five year rotation goes beyond this.

24. The appointment of a new Lead External Auditor Partner for the purpose of the statutory audit involves a rigorous program of interviews. Potential candidates for the current lead partner role were interviewed by the Chief Financial Officer, Chief Risk Officer, Group General Manager Internal Audit, Chairman of the Audit Committee and Chairman of the Board.

## AUDITOR COMPENSATION AND CAPS

25. The Audit Committee caps payments to the external auditor for non-audit services, in addition to overseeing the general and specific restrictions outlined above. For the financial year to 30 September 2018, the cap was 5 per cent of audit fees for Australia, and 2.5 per cent overseas with further country specific caps. Payments to our external auditor in 2018 are set out in Table 1.<sup>10</sup>

| <b>TABLE 1. COMPENSATION OF AUDITORS</b>            | <b>2018</b>   | <b>2017</b>   |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| <b>KPMG Australia</b>                               |               |               |
| Audit or review of financial reports                | 10,058        | 9,418         |
| Audit-related services <sup>1</sup>                 | 4,999         | 4,760         |
| Non-audit services <sup>2</sup>                     | 306           | 732           |
| <b>Total<sup>3</sup></b>                            | <b>15,363</b> | <b>14,910</b> |
| <b>Overseas related practices of KPMG Australia</b> |               |               |
| Audit or review of financial reports                | 5,797         | 6,263         |
| Audit-related services <sup>1</sup>                 | 1,276         | 1,410         |
| Non-audit services <sup>2</sup>                     | 2             | 10            |
| <b>Total</b>  | <b>7,075</b>  | <b>7,683</b>  |
| <b>Total compensation of auditors</b>               | <b>22,438</b> | <b>22,593</b> |

1. Comprises prudential and regulatory services of \$3.70 million (2017: \$4.71 million), comfort letters \$0.51 million (2017: \$0.72 million) and other services \$2.07 million (2017: \$0.74 million).

2. The nature of the non-audit services includes general market and regulatory insights, training, controls related assessments, methodology and procedural reviews. Further details are provided in the Directors' Report.

3. Inclusive of goods and services tax.

## EXTERNAL AUDITOR CAPABILITIES

26. The ANZ external auditor must have global level expertise and sufficient resourcing to review the full scope of ANZ financial reporting in relation to Australia and offshore. This will cover technically complex areas of financial services and a wide range of Australian,

<sup>10</sup> Refer 2018 Annual Report, p.163 at [https://www.anz.com/content/dam/anzcom/shareholder/anz\\_2018\\_annual\\_report\\_final.pdf](https://www.anz.com/content/dam/anzcom/shareholder/anz_2018_annual_report_final.pdf)

New Zealand, US and other regulatory obligations in the jurisdictions in which we operate.

27. ANZ raises funding from international investors and in the leading financial centres, as well as in Australia. In addition to its Australia Retail and Commercial businesses, ANZ operates retail, commercial and wealth businesses in New Zealand and corporate banking services such as transaction, loans and specialised finance, and transaction services to institutional and corporate clients. In all, ANZ operates in 34 markets. Group-wide functions supporting banking services include Risk, Technology, Services and Operations, Finance and Legal groups (refer [Table 2](#)).
28. As a global bank, ANZ operates in technically complex areas of banking services. For example, we maintain sophisticated Treasury and credit risk groups in order to manage the business and meet a wide range of regulatory obligations. We operate a markets division undertaking derivative and other financial instrument trading in a range of currencies, both on behalf of the bank to hedge risk and on behalf of clients. The outcomes of these functions must be accurately reflected financial reporting (for example, on the bank’s liquidity and funding position, derivative financial instrument reporting, and credit impairments).

**TABLE 2. OVERVIEW OF ANZ BUSINESSES<sup>1</sup>**

|  |  |
|--|--|
| <b>Australia</b>   | Retail and Commercial, and Private Bank business units, providing a full range of banking services including lending, deposits and transaction services  |
| <b>Institutional</b>   | Transaction Banking, Loans & Specialised Finance and Markets services provided to institutional and corporate customers located in Australia, New Zealand, Asia, Europe, America, Papua New Guinea and the Middle East |
| <b>New Zealand</b>   | Retail (including wealth management services) and Commercial business units, providing a full range of banking services. Also responsible for ANZ Pacific banking operations   |
| <b>Group-wide functions</b>  | Risk, Technology, Services & Operations (TSO) and Group Centre.  |
| 1. Wealth Australia is a discontinued operation. The sale of OnePath Life, the ANZ life insurance business, to Zurich Financial Services Australia completed in June. In October 2019, ANZ announced that it expects to complete the sale of its OnePath Pensions & Investments business and Aligned Dealer Groups to IOOF Holdings Limited in the first quarter of calendar year 2020. ANZ financial adviser, lenders mortgage insurance and other remaining businesses have been transferred to the Australia Division |  |

29. KPMG has audited ANZ for a number of years<sup>11</sup>. In our view, this reflects the high level of focus, capacity, and expertise required to perform external audit for a major bank

<sup>11</sup> In January 1969, ANZ appointed Peat, Marwick, Mitchell & Co as external auditors. From 1951 to 1968, ANZ had joint external auditor arrangements with Whinney, Murray & Co and Deloitte, and Plender,

with significant international operations. As noted above, the external auditor is not permitted to provide a wide range of financial, consulting or advisory services to ANZ.

30. We believe that few firms in the relatively small Australian market have both the capability and commercial willingness to perform the dedicated function. We consider that the strong control framework outlined in this submission provides critical protections for external audit integrity and independence in this context.

**ENDS**

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Griffiths & Co (or their predecessor firms). The joint arrangements arose as ANZ was formed from the 1951 merger of the Bank of Australasia and Union Bank of Australia, each of which was audited by separate firms.