SAICA Basel Task Group **25 August 2023**

Proposed Directive – Version of BA Returns that form basis for reporting by auditors in terms of Reg 46, dated 20 July 2023

The below sets out the comments submitted by the members of the SAICA Basel Task Group on the topic. Some members have decided to submit their comments directly to the Prudential Authority.

#	Reference	Observation / Comments
1	Par 2.1.1	**Clarification of scope of the resubmission – only a selection of returns (e.g financial returns only) v ALL returns** Does the resubmission refer to a resubmission of **ALL** the BA Returns, or only a selection of returns (i.e. financial returns and management determined set of risk returns)? Understanding will be that if for example the assets on the BA 100 is amended, then this impact to flow into BA 200, 300 etc. Meaning all risk models / processes need to be re-run to assess impact of the adjustments, if required. Is the understanding correct that all returns impacted by the changes made are to be resubmitted?
2	General	**Resubmission set batch number** Regulation 7 specifies that *as an example, a reference to 10c; 10h in respect of a specific prescribed return means two independent submissions in respect of the specified return, interval and period.* Does this mean that there are two distinct submissions batches with 10a-g and 10i representing the first submission and the 10h submission referencing to the second-submission batch? What is the submission set name (ie T1, S4 etc) and are banks currently using the correct set value upon resubmission? As such would the auditors be able to lock the returns for the first submission and second submission based on the different batches being applied?
3	Par 1.2	***"In terms of regulation 7 of the Regulations, the bank must make this submission by no later than 90 calendar days after year end."*** Although regulation 7 of the regulations does provide for the submission of all returns 90 days post year end, these returns are being submitted in batches. The current batch submission process only allows for the BA100, BA110, BA120 & BA220 (batch B7 for solo supervision) and BA100, BA110 & BA120 (batches S3 & T4, for bank consolidated and group respectively) to be submitted. • Would new batches be created for the submission of all returns in terms of the 90-day submission requirements, or do we request a resubmission and utilise the current normal batch submission process? • How would the audit lock of the initially submitted returns (i.e. 15 / 20 day returns) be impacted by the additional submission requirements, will this 90 day submission override what is stored in the SARB PA systems in terms of initial submissions?

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		• Would an additional audit lock request be required for the external auditors to opine on the 2nd submission?
4	2.1.1	**Clarification of the PA expectations on audit letter related to the reconciliation** What exactly is required by auditors on "*clearly reflecting the changes made in the resubmission in comparison to the previous submission, duly* ***signed and acknowledged by the auditor****, in the form of an audit letter*" . What is the PA's expectation of auditors on this recon prepared by management? Do auditors just acknowledge that there is a recon or auditors need to confirm / verify any of the data and management explanations on the recon? Will the audit letter only serve as confirmation that the auditor is aware of the resubmission request made by the bank, which is similar to current instances where an Audit unlock letter is submitted by auditor to the PA to enable to bank to do a resubmission. If anything in addition to an acknowledgement is needed, then additional audit work will be required adding to the audit costs and already constrained timelines. Auditors' preference to not give any level of assurance on the recon prepared by management to limit cost and keep focus on the regulation 46 reporting. If the auditors are expected to perform additional work on the reconciliations between the first and second submission, this could possibly be done as an AUP to confirm completeness.
5	Par 2.1.1	***"In such instances, a resubmission of the BA returns by the bank would be required in line with Regulation 7 of the Regulations, i.e., the second submission. This resubmission request must be accompanied by a reconciliation by management, clearly reflecting the changes made in the resubmission in comparison to the previous submission, duly signed and acknowledged by the auditors, in the form of an audit letter."*** • The bank currently, when requesting a resubmission at year-end, provides the PA with a reconciliation as well as high-level comments / reasons for the differences between the initial and requested resubmission. • What would be required from our external auditors to provide an audit letter for this resubmission? Any additional work required by the auditors would come at additional cost for the bank, if no work required from the auditors in this regard - what would be the benefit of such a request for an audit letter? • In order for the usual governance processes to run its full course, resubmission should be made much earlier than 90 days, as a 90-day resubmission window would not allow for the completion of the audit and submission of the regulation 46 reports to the SARB PA within the allocated 120 days. • In certain instances (specific reference to some of the African banking subsidiaries) the Annual Financial Statements (AFS) are only finalised / signed off 3 months post year-end, resubmitting these to align to the final AFS within 90 days may pose a significant challenge.

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6	2.1.1	**Distinction between management identified v auditor identified issues** For auditors to distinguish between adjustments made by management relating to AFS alignment / adjustment and other errors could be difficult in practice. It would be important to also understand the value in such a distinction. We recommend that the distinction be removed and adjustments made be viewed as singular to include both those identified by management and those identified by audit.
7	2.1.1	**Clarification of implication of a resubmission on prudential ratios, in particular the minimum reserving requirement (per SARB Act)** The impact of compliance with prudential ratios and other compliance matters to be considered and understood by all stakeholders when a resubmission is made, such as the BA 310 minimum reserves requirement. This is determined at a point in time and at resubmission the bank may be non-compliant. It would be the auditors duty to report any non-compliance factually to the PA.
8	2.1.1	**Timing of the resubmission should be made earlier than the 90 days to allow sufficient time for due audit process to take place** Timing of the resubmission by latest 90 days (as per regulation 7) – this timing would place undue pressure on the audit process if the final resubmitted returns are only received 30 days before the deadline of 120 days. Under normal circumstances (i.e. auditing one submission) there are significant activities that take in the last 30 days (governance clearance, risk and consultation, reporting, finalising work papers, finalising reporting matters on audit). With a second submission (an additional set of returns), additional checks and audit work is needed once the final LOCKED returns are obtained back from the PA to ensure a high-quality audit. A recommendation would be to the resubmission to be required earlier, example day 45.
9	2.1.1	**Recommendation that a standard format is provided for the reconciliation by management** Will there be consistency / alignment or standard format on the recon provided by banks to the PA indicating the differences between first and second submission? To ensure consistency, a standard format should be prescribed (as with the BA 900 to BA 100).
10	2.1.1	**Clarification of whether the second submission is mandatary or optional** Is it **mandatory** for banks to do a second submission, rather than have an **option** to do a second submission? In the case that a bank decides **not** to do a resubmission, there are several other issues that would arise? For example, a) Will the first submission then form the base of the audit opinion?

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		b) Who will then quantify the impact of the differences to financial statements on ALL the other returns (including prudential requirements and granular disclosure requirements? c) In the event, there is a no quantification and misstatements are "material and pervasive", would stakeholders accept a disclaimer of opinion? d) If the Bank resubmits a third or fourth submission (for example to continually re-align to AFS adjustments), would the second submission be considered as the returns the audit is to be based on or would the last submission be the subject of the audit?
11	Par 2.1.2	***"The audit opinion or review conclusion submitted to the PA in terms of regulation 46 of the Regulations must be based on the resubmitted return."*** In the event of commencing the audit on first submission with the auditors opining on the second submission, this would naturally result in increased cost for the banks, as well as potential increased headcount (increased cost) for the audit firms, noting that certain audit resources double-hat on the statutory and regulatory audit. This increased cost, with no benefit to the banks does not align to the objectives of regulation 1(1) (as quoted above). Furthermore, the additional work required by the external auditors might jeopardise our (bank and auditors) ability to conclude the audit within the 120 days provided for in the Regulations.
12	2.1.1	**Consequence when financial statements are finalised after the deadline for resubmission** Timelines of when AFS are finalised / signed and the process surrounding the resubmission, for both bank / group and all the BA 610 offshore banking entities. As such, it may not be plausible or possible for a bank to complete a submission that aligns to the AFS if the AFS are only finalised post 90 days. If this is the case, one would presume that only the first submission is the one to then be audited?
13	2.1.1	There are instances especially in Regional Operations across Africa where AFS are not finalized before the end of 90 days, in such instances banks will not be able to resubmit the BA returns which will align to the final AFS. *"In such instances, a resubmission of the BA returns by the bank would be required"* The regulations allow the AFS to completed within 120 days, thus there are scenarios where the AFS are not finalized before 90 days. In this regard the group will resubmit the latest version at a point in time. Please clarify if this will be in compliance with the regulations, we also request that this be clarified in the final directive.
14	2.1.2	**Requirement to audit on the first submission?** The principle of an audit is based on performing an effective and efficient audit. It is the auditor's responsibility to determine the means to gather their audit evidence in support of their final conclusions and we feel remains the auditor's judgement in

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		determining how to do so. As such, we do not agree that the audit process and the subject matter should be mandated in the directive. For example, if a bank does a resubmission shortly after the first submission, but before the regulatory audit commenced, it would be more effective and efficient to perform audit work on the latest submitted return. Auditors will then only focus on second submission and on the resubmission reconciliation, there should be no findings identified by auditors that could be adjusted as no work would have been done on the first submission. This would also limit audit costs. All changes made between first and second submission can still then be reported as corrected items, with explanations written up and included in the Appendix A in the relevant "corrected" category detailing the reason for differences. We feel this would still meet the Prudential Authorities requirements and ultimate objectives. Alternatively, the audit should be mostly completed on the first submission and resubmission will be done one the auditors inform the bank they can (within the 90 day period)
15	2.1.2	**Distinction by the auditors on the adjustments between first and second submissions across ALL returns** "*The auditor must provide a detailed report to the PA, consisting of all adjustments made to the BA returns between the first and second submissions, distinguishing clearly between those adjustments that were made as a result of aligning the BA returns to the audited AFS and other audit findings or corrections of errors*." Auditors can report on the differences between the first and second submission, but might struggle to distinguish between those made to align to AFS and other corrections. It is suggested that management provide this info in the recon submitted to the PA and that auditors only report on the mathematical differences between first version and resubmitted version. We highlight that changes in the financial returns are not easily traceable to changes across ALL risk returns (i.e. it is not a linear correlation) especially for Banks that are on IRB and Advanced models that run large models to determine the prudential and the granular disclosure requirements.
16	2.1.2	**Increased audit costs** In the event of commencing the audit on a first version and then assessing changes made on a second version results in additional audit procedures and steps, which will result in increased audit costs. It is unlikely this is something the Banks would wish to cover if there are operational inefficiencies that are put into industry, but also something the audit firms would not be in a position to accept massive increase in work without commensurate recovery.
17	Par 2.1.1	***"The first submission of the BA returns must be used as the basis for the initial audit work."*** Certainly, from a the bank perspective this has significant cost implications:

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		• In the event that the 1st submission's data and results need to be ring-fenced in order for the external auditors to reference balanced, point-in-time data, we would be required to create a point-in-time database solely for this purpose, implying that capital expenditure is required in terms of additional hardware, in order to host this dataset, noting that this hardware would only be used for a maximum of 3 months per year. This seems to be contradictory to regulation 1(1), which states that "*The objective of these Regulations is to provide for the establishment of basic principles relating to the maintenance of effective risk management by the banks and controlling companies, with due allowance for the ancillary objective that the benefits derived by banks and controlling companies from a compliance perspective exceeds the costs entailed by such compliance."* • This would furthermore result in potentially higher headcount requirements across the bank, due to: o Having to content with all the on-going normal business-as-usual activities; o Attending to any audit queries / requirements, and; o Continuously aligning the BA returns to the latest available financial information, in order to deliver on analyst booklet / public disclosure requirements Would not be possible with current available resources as all the banks resources would be needed across all these areas simultaneously.
18	Excel Annexure	**Requirements of the Excel sheet can be covered by current Appendix A format** Auditors are of the view that the contents stipulated in the Excel annexure can be covered in the current Word Appendix A format and preference will be to continue to submit the Word Appendix A format, modified to incorporate the additional aspects required by the PA.
19	Excel annexure	**Further detail requested of the auditors, not currently requested** On Excel annexure, Tab "Unadjusted findings", column heading "*Months other than year-end affected?* ***(If yes, please attach details)***" – our audit procedure will only identify that other months are impacted, but we do not have all the details, and in order to provide the details, further audit work would be required, which is not the current practice. Currently, the Regulation 46(2)(b) procedures currently require us to inquire from management as to whether the months other than year-end are affected by the error noted for year end and document their response. As such and consistent with Regulation 46(2)(b) procedures it is suggested that this information be provided by the banks. Please also note that we are not required to perform additional procedures on these responses provided by management under the current Regulation 46(2)(b). Nonetheless, we would recommend that the expectations around what is required is provided by management and the auditors is clarified to avoid any confusion, noting that depending on the requirements that this may complicate and potentially result in delays in submitting the Regulation 46 reports.

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20	Annexure	Your attention is also drawn to the appendix A column titled "*Months other than year-end affected? (If yes, please attach details*)", we request clarity of what details is required. It is important to highlight that for practical purpose dependent on the nature of the audit findings it is not always possible to provide quantitative impact assessments retrospectively, and thus a comment may only be limited to a qualitative impact
21	General	**Impact on the Mutual Banks should also be considered** Impact of the above process on Mutual Banks, Regulation 6 – will a similar directive be issued for Mutual Banks?
22	General	**What constitutes a first submission?** For example, if management are able to and do submit a set of returns on business day 10, but then do another submission on business day 15, would the first submission be the returns submitted on Business day 10 or Business day 15?
23	General	**Audit lock requests** We have noted that when audit lock requests are submitted, the data in the first submission can also be overwritten if no audit lock is placed or if management submit a second BA 099 with an open gateway. This results in problems as the first submission made disappears and is seemingly not available outside of requesting management for it, with no independent evidence as to whether that is what the PA actually received as a first submission. In this regard we would expect the PA to be able to send the forms submitted as the first submission to the auditors immediately as when received by the PA. There should not be a requirement to send a letter to the PA to request these, but instead the frontline teams should provide these without hesitation to the auditors. Without the first submissions from the PA, we are not be in a position to acknowledge whether the second submission changes are those as stated by management in the requested reconciliation, which per the proposed directive we would be required to acknowledge. This view is strengthened as with the various different submission dates in Regulation 7 (15 Business Days, 20 Business Days, 30 Business days and 30 calendar days), it would not be efficient or effective for an auditor to prepare and send a lock letter after every submission date. In addition, we are concerned that any lock letter sent (eg on BD 15) may result in the inadvertent locking of the remaining Batch submissions – meaning potentially that the Bank would not be able to submit returns if the incorrect lock is applied. We request the PA to provide clarity around the expectations regarding the audit lock letters and also whether the PA systems are able to provide the first submission data to the auditors under all potential circumstances.

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<tr><th>#</th><th>Reference</th><th>Observation / Comments</th></tr>
<tr><td>24</td><td>General</td><td>Implementation: Phased-in
The time between when the directive will be implemented and time remaining to start amending resourcing requirements and sourcing these on significant engagements is insufficient, especially for upcoming audits (Dec 2023). Historically our resourcing on large engagements has been to utilise resources that have been involved in the audit of the bank divisions so as to obtain the leverage of using someone familiar with the Bank in question to reduce inefficiencies. If the timelines are to change, we are not in a position on large banks to move resource from the statutory audit portion (i.e. – a delay in statutory audit reporting will not be acceptable) onto the earlier start of the BA engagement. Some Banks also do not allow the use of contractors on engagements, and as such resourcing availability will likely be severely affected should the engagements have to start earlier. We would recommend that if this is to go ahead, that this be phased in over a period to allow sufficient time for all parties to plan appropriately for the implementation and that it only becomes effective after the upcoming Dec 2023 year-end audits.</td></tr>
<tr><td>25</td><td>Par 2.1.3</td><td>“The requirements set out in this proposed directive apply to audits or reviews conducted in terms of regulation 46 for financial years ending on or after 31 December 2023.”
It must be noted that considerable capital expenditure (hardware) and additional systems, processes, and procedures (given current practises) would be required by banks in order for a smooth external audit, in line with this proposed directive, to occur. The following processes in respect of December year-end banks are already in advanced stages:
Planning in terms of 2023 December year-end audits already commenced.
December year-end banking institutions are currently finalising 3-year planning and budgets.
With the extent of the potential additional work required by the external auditors in this regard, the increase in audit fees is not clear from both and audit and banking perspective and could result in significant unbudgeted expenditure being incurred for no additional practical benefits.</td></tr>
<tr><td>26</td><td>General</td><td>Necessity of implementation
As previously noted in prior comments shared, we still are of the view that the implementation of this proposed directive is not necessary and the PA can achieve its goals around improved clarity on first submission reporting quality through other means:
- The manner in which findings are prepared will still differ between banks. For example, where a finding is more pervasive in nature, we would expect a singular error to be raised by the reporters. However, a bank that is more advanced, it may be possible to pinpoint far more specific errors and thus several findings will be raised. The inference that the first Bank has performed better than the second would be misplaced in such an example and would limit comparability.</td></tr>
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		- Findings are generally raised thematically to enable the PA and the Bank to understand the cause underpinning the finding, as opposed to preparing one finding per cell which would not add context or result in the same context being provided across all areas. This also could exacerbate the number of findings and limit comparability. - If there is concern about the quality of reporting between the first and second submission for a particular bank, the PA could on a bilateral basis engage with the auditors of the offending Bank to perform additional procedures on the differences between the first and second submission or to perform procedures on a submission period that is not at year end. It is also unclear how this consistency would be used in the PA's approach to regulating/supervising the banking industry. There is currently no comparison of findings between banks that is publicly made and thus banks do not aim to confirm if their reporting quality (inferred from the number of findings) is better or worse than other banks. Banks generally aim for their own "high water mark" and compare their own results year on year to assess their own relative performance in terms of reporting quality. It would be useful to understand the PA's envisioned future use of this information in industry, in light of the above and the possible inherent limitations that may still exist.

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