SAICA Guide

Materiality Guidelines For Regulatory Assurance Engagements Performed In Accordance With Either Regulation 46 Of The Regulations Relating To Banks Or Regulation 6 Of The Regulations Relating to Mutual Banks

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SAICA

DIFFERENCE MAKERS™

DISCLAIMER

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PREFACE

This SAICA Guide: Materiality Guidelines For Regulatory Assurance Engagements Performed In Accordance With Either Regulation 46 of the Regulations Relating to Banks or Regulation 6 of the Regulations Relating to Mutual Banks (this Guide) was developed by the SAICA Basel Task Group. The SAICA Basel Task Group comprises representatives from audit firms, the South African Reserve Bank – Prudential Authority, commercial Banks and the South African Institute of Chartered Accountants (SAICA). The Guide was approved by the SAICA Assurance Guidance Committee, a prescribed committee of SAICA.

This Guide provides guidance to SAICA members and associates on the application of the materiality requirements contained in the International Standards on Auditing (ISAs), International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements* (where applicable) and International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* when conducting regulatory assurance engagements as required by Regulation 46 of the Regulations relating to Banks or Regulation 6 of the Regulations relating to Mutual Banks.

The Guide contains references to “industry practice” with regard to these regulatory assurance engagements. These references are based on the experience of the audit firm representatives on the SAICA Basel Task Group and provides users with context when applying this Guide. The Guide, however, does not prescribe the use or application of any stated “industry practice” information. The requirements of the applicable standards include the application of professional judgement in determining materiality for the regulatory assurance engagement and documentation of the auditor’s considerations. This Guide does not overrule compliance with either the applicable standards or any audit firm’s own methodology guidance.

SAICA Guides do not impose requirements beyond those included in the relevant international / South African standards and/or South African regulatory requirements and do not change a SAICA member or associate’s responsibility to comply, in all material respects, with the requirements of the relevant international / South African standards and/or South African regulatory requirements.

This guidance is provided to members and associates of SAICA purely to assist them with the subject matter of this Guide, however, SAICA does not warrant that this Guide deals with every aspect relating to the subject matter.

MATERIALITY GUIDELINES FOR REGULATORY ASSURANCE ENGAGEMENTS PERFORMED IN ACCORDANCE WITH EITHER REGULATION 46 OF THE REGULATIONS RELATING TO BANKS OR REGULATION 6 OF THE REGULATIONS RELATING TO MUTUAL BANKS

Introduction

1. This Guide is intended to provide auditors performing regulatory assurance engagements for Banks or Mutual Banks (the "regulatory assurance engagement") with guidance that may be applied in the determination of materiality for the regulatory assurance engagement, and in evaluating identified or possible misstatements and their impacts on the auditor's reports, when reporting on the Banks Act Returns ("BA Returns") in terms of Regulation 46 of the Regulations Relating to Banks or when reporting on the Depository Institutions returns ("DI Returns") in terms of Regulation 6 of the Regulations relating to Mutual Banks (collectively "the Regulations").

2. The BA returns and DI returns (collectively referred to as 'statutory returns') as per the applicable Directives are subject to varying levels of assurance as set out in the Directives on the reporting requirements in terms of Regulation 46 or Regulation 6 issued from time to time by the Prudential Authority (the PA) at the South African Reserve Bank:

Statutory returns as per the Directive [1]	**Type of regulatory assurance engagement** [2]
Part A returns	An audit performed in terms of International Standards on Auditing (ISA).
Part B returns	A review performed in terms of International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* or ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements* (where applicable). ISRE 2410 would generally apply to regulatory assurance engagements. However, where the auditor signing the regulatory assurance report is not the appointed statutory auditor of the Bank or Mutual Bank, as is the case for foreign operations, the regulatory assurance report will make reference to ISRE 2400 (Revised).
Part C, D and E* returns *Part E only relates to Regulation 46 reports.	A limited assurance engagement performed in terms of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information.*

[1] The Part A to E returns refer to the lines of the statutory returns and their respective Parts of the Regulation 46 report or Regulation 6 report in which they are reported upon as indicated in the Directive.
[2] These levels of assurance apply equally to the Regulation 46 report for foreign operations and the Regulation 6 report for Mutual Banks, with the exception of "Part E returns" which only refers to the assurance report on the Regulation 46 report on South African Banks' operations.

Scope

3. This Guide provides guidance in respect of the following as it relates to a regulatory assurance engagement:

   a) Applying professional judgement in determining regulatory overall materiality and specific materiality;

   b) Determining the clearly trivial threshold to be applied when accumulating identified misstatements;

   c) Applying professional judgement in evaluating identified or possible misstatements and their impact on the auditor's reports; and

   d) Reporting of other matters in the regulatory assurance engagement reports.

4. The Guide also focuses on the practical application of the materiality principles in evaluating misstatements in a regulatory assurance engagement through the use of the flowcharts as set out in Appendix C.

5. This Guide does not prescribe the benchmark or the percentage to be applied in the regulatory assurance engagements and the use of this Guide should therefore not be used as a reference in documenting the materiality judgements made. Instead, the auditor should document why the materiality applied would be appropriate with reference to the PA as the primary user of the statutory returns.

6. The determination of performance materiality is not addressed in this Guide as it was regarded that this topic was sufficiently dealt with by the applicable standards and the audit firms' methodologies.

Definitions

7. In the context of this Guide, the following meanings are ascribed to the terms used:

   Applicable standards – refers to the standards applicable to the regulatory assurance engagement and includes ISAs, ISRE 2410, ISRE 2400 (Revised) and ISAE 3000 (Revised).

   Disclosure information – information disclosed in the statutory returns that is neither financial information nor prudential information, irrespective of how it is expressed and includes percentages. Disclosure information is reported in Part B, C, D and E of the Regulation 46 reports and Parts B, C and D for foreign operations and Regulation 6 reports.

   Financial information – information expressed in a unit of currency that is maintained in the accounting general ledger of the reporting Bank or Mutual Bank. For example, the loan and advances amount recorded in the general ledger. This also includes off-balance sheet accounts such as contingent liability accounts. Financial information is reported in Part A of the Regulation 46 and Regulation 6 reports.

   Misstatements – In the context of a regulatory assurance engagement, a misstatement would comprise a difference between the financial, prudential or disclosure information reported in the statutory returns and that which is required to be reported for the financial, prudential or disclosure information to be in accordance with the Regulations.

Professional judgement – In the context of the Guide, professional judgement refers to the application of relevant training, knowledge and experience, within the context of the regulatory assurance engagement, in making informed decisions about the course of action that is appropriate in the circumstances of the regulatory assurance engagement.

Prudential information – information used as an input in determining a prudential limit. For example, the risk weighted assets used in capital adequacy ratio or High Quality Liquid Assets used in the Liquidity Coverage Ratio. Prudential information is reported in Part B, C, D and E of the Regulation 46 reports and Parts B, C and D for foreign operations and Regulation 6 reports.

Regulatory overall materiality – materiality determined for the statutory returns as a whole. It is industry practice for regulatory overall materiality to be equal to or greater than statutory overall materiality. (See also paragraph 11 of this Guide.)

Statutory returns – comprise a series of returns (either BA Returns or DI Returns, as applicable) submitted to the PA at the South African Reserve Bank for purposes of supervising Banks and Mutual Banks and which contain information that could be categorised as either (i) financial, (ii) prudential, (iii) disclosure, or (iv) economic in nature. The economic information is not addressed in this Guide as it is not subject to the regulatory assurance engagement. For a summary of the returns and the nature of the information they contain, refer to Appendix A to this document.

Statutory overall materiality – The overall materiality applied for purposes of the audit of the statutory financial statements of the Bank or Mutual Bank.

Specific materiality – materiality of a lesser amount than regulatory overall materiality determined for all prudential, financial or disclosure information, if and when appropriate.

Requirements of the applicable standards in relation to the determination of materiality and evaluating misstatements in a regulatory assurance engagement

8. Varying levels of assurance are provided on the statutory returns submitted to the PA. Under the applicable standards, the determination of materiality is a matter of professional judgement and is affected by the auditor's perception of the needs of the users (irrespective of the level of assurance being provided). For ease of reference, the relevant requirements (for purposes of this Guide) contained in the applicable standards relating to the determination of materiality for purposes of the regulatory assurance engagement have been included in Appendix B to this Guide.

9. The applicable standards also contain requirements relating to evaluating misstatements. The applicable standards require the auditor to evaluate whether identified misstatements (other than those considered to be clearly trivial), individually and in aggregate, are material to the subject matter. For ease of reference, the relevant requirements (for purposes of this Guide) contained in the applicable standards in relation to evaluating misstatements have been included in Appendix B to this Guide.

10. The applicable standards contain requirements for determining materiality for the regulatory assurance engagement. These requirements are consistent in terms of establishing a materiality level intended to identify misstatements or possible misstatements, including omissions, that could reasonably be expected to influence the economic decisions of the user of the statutory returns. Therefore, for purposes of the Guide, the applicable

standards have been applied. For ease of reference, relevant requirements from the applicable standards have been included in Appendix B to this Guide.

Determining regulatory overall materiality for the regulatory assurance engagement

11. The subject matter for the regulatory assurance engagement comprises the statutory returns submitted to the PA. The statutory returns comprise information of either a financial, prudential or disclosure nature. In terms of the applicable standards, the determination of materiality is a matter of professional judgement. The distinction between the financial, prudential or disclosure is critical in evaluating identified misstatements as set out in Flowchart 2 in Appendix C.

12. In planning the regulatory assurance engagement, materiality is determined for the statutory returns as a whole. This materiality level is referred to in this Guide as the "regulatory overall materiality" and is distinct from the overall materiality level used in the audit of the financial statements of the Bank or Mutual Bank, which is referred to in this Guide as the "statutory overall materiality".

13. The auditor may consider it necessary to determine a specific materiality for certain financial, prudential or disclosure information in the statutory returns. In making this determination, the auditor considers whether misstatements to certain financial, prudential or disclosure information of a lesser amount than the regulatory overall materiality for the statutory returns as a whole could be expected to influence the economic decisions of the user of the statutory returns.

Determining regulatory overall materiality

14. While not prescribed by regulation or auditing standards, generally the auditor would apply the following steps in determining the regulatory overall materiality amount:

    a) Choosing an appropriate benchmark;

    b) Determining a level (usually a percentage) to be applied to this benchmark; and

    c) Documenting the professional judgement exercised in the choice of benchmark and the percentage applied.

    These steps will be discussed further in the sections below.

Choosing a benchmark and determining the percentage to be applied to the chosen benchmark

15. For purposes of the regulatory assurance engagement, the benchmark to be applied would typically comprise an element or component of the statutory returns to which a percentage will be applied. In considering the benchmark to be applied, the auditor considers the nature of the entity and the industry in which the entity operates. In addition, the auditor also considers the needs of the user of the statutory returns. In the context of a regulatory assurance engagement, industry practice is to use total assets (as per the BA 100/DI 100 statutory returns) as the benchmark. Considerations supporting the use of total assets as a benchmark may include:

    a) The majority of the information presented in the statutory returns are balance sheet driven. For example, credit risk is mainly driven by the assets; liquidity risk and interest rate risk are predominantly driven by the mismatch of assets and liabilities on the balance sheet; market risk is predominantly driven by the trading book position on the balance sheet.

b) Generally, the assets side of the balance sheet drives the most significant risk for Banks, being the credit risk in the determination of the capital adequacy ratio.

c) The PA is the primary user of the auditor's reports and its main objective is the protection of the depositors. It is therefore expected that the focus of the PA will be on the balance sheet; in particular the asset base.

16. Auditors apply professional judgement and their audit firm specific audit methodologies in determining the percentage to be applied to the benchmark. In the context of a regulatory assurance engagement, auditors generally apply up to 2% of total assets. However, auditors should consider any engagement specific qualitative factors when determining the percentage to be applied.

17. Irrespective of the benchmark selected and the percentage to be applied, the auditor is required in terms of the applicable standards to document the judgments applied in arriving at the amount of regulatory overall materiality (benchmark and percentage to be applied).

Determining a specific materiality level for certain financial, prudential or disclosure information

18. As described in paragraph 13 above, in determining whether a specific materiality may be determined and applied, the auditor considers whether misstatements to certain financial, prudential or disclosure information of a lesser amount than the regulatory overall materiality for the statutory returns as a whole could be expected to influence the economic decisions of the PA.

19. In the context of a regulatory assurance engagement, it is industry practice for auditors to apply the following specific materiality levels for financial, prudential or disclosure information:

Financial information	It is industry practice to apply statutory overall materiality as specific materiality if lower than regulatory overall materiality in order to ensure consistency of conclusions reached over the financial information which is derived from the audited financial statements. In the event that statutory overall materiality is higher than or equal to regulatory overall materiality, it is industry practice for the regulatory overall materiality applied to be equal to the statutory overall materiality and for specific materiality not to be determined.
Prudential information	It is industry practice to apply statutory overall materiality as specific materiality if lower than regulatory overall materiality due to the heightened focus placed by the PA on this particular class of information. In the event that statutory overall materiality is higher than or equal to regulatory overall materiality, it is industry practice for the regulatory overall materiality applied to be equal to the statutory overall materiality and for specific materiality not to be determined.
Disclosure information	In practice, specific materiality is usually not determined for disclosure information because misstatements of disclosure information of lesser amounts than regulatory overall materiality are not reasonably expected to influence the economic decisions of the PA. Regulatory overall materiality is normally applied, except where the auditor considers a specific materiality to be appropriate. However, there are limited industry examples where specific materiality has been applied.

20. In the context of a regulatory assurance engagement, a specific materiality may be established where misstatements of lesser amounts are expected to influence the economic decisions of the PA. It therefore follows that where a specific materiality is established this has to be less than the regulatory overall materiality, for example, it would not be appropriate to establish a specific materiality based on notional values of derivatives or turnover of derivatives in the BA 350 (Derivatives) return that exceeds regulatory overall materiality.

21. It is important to consider that the regulatory assurance engagement draws significantly on evidence obtained in the course of the audit of the financial statements. In the rare instances, where the application of a regulatory overall materiality amount is lower than the statutory overall materiality for the regulatory assurance engagement, the auditor will be required to perform additional audit procedures beyond those planned and executed in the audit of the financial statements to obtain sufficient appropriate audit evidence for purposes of the regulatory assurance engagement as if the statutory overall materiality was lowered to that of the regulatory overall materiality.

Evaluating misstatements in a regulatory assurance engagement

Determining the clearly trivial threshold (CTT)

22. As provided in the applicable standards (refer to Appendix B), the auditor shall accumulate misstatements identified during the course of the relevant assurance engagement (other than those that are clearly trivial). In the context of a regulatory assurance engagement, the auditor would similarly establish a threshold for misstatements which would be considered clearly trivial (for purposes of this Guide, this will be referred to as "CTT").

23. In establishing the CTT amount in the context of a regulatory assurance engagement, auditors apply professional judgement, taking into account their experience of the entity including, for example, the past history of misstatements detected and their assessment of audit risk. In practice, auditors generally establish the CTT amount derived as a percentage of regulatory overall materiality or specific materiality, as applicable, to be appropriate (for example a range of up to 5% of the regulatory overall materiality or specific materiality). The position within the range, or whether an amount beyond the range can be justified, depends on the auditor's judgement.

24. Misstatements, both individually and in aggregate, that are below the CTT need not be recorded on the summary of uncorrected misstatements, unless auditors consider it appropriate to do so because, qualitatively, the nature of the misstatement indicates that it is not clearly trivial.

Use of professional judgement in setting materiality and evaluating misstatements

25. This Guide highlights matters for consideration by the auditor and provides auditors with industry practice in the performance of regulatory assurance engagements. It is in no way intended to remove the auditor's professional judgement. For example, it is expected that auditors exercise professional judgement in the following cases:

    a) The auditor is required to apply their professional judgement to make a final decision on the overall materiality for the regulatory assurance engagement including the benchmark and the percentage to be applied to the chosen benchmark. Judgements made by the auditor should be documented on the audit file.

b) When evaluating misstatements, the circumstances related to some misstatements may cause the auditor to evaluate them as qualitatively material, individually or when considered together with other misstatements accumulated, even if they are lower than the quantitative materiality threshold. However, qualitative factors should not be used to evaluate a misstatement as not material when quantitatively the matter exceeds regulatory overall materiality or specific materiality, as appropriate. The judgements around evaluating misstatements remain with the auditor and should be documented.

c) In terms of the applicable standards, the auditor is required to use their professional judgement to assess if the effects of the misstatements on the statutory returns are pervasive. If the misstatements are material and pervasive, the auditor is required to follow the requirements of the applicable standards on the types of audit opinion or conclusions to be provided.

d) The auditor should apply their professional judgement in modifying their opinion as it is related to other errors/misstatements on non-monetary numbers e.g. percentages taking into consideration the qualitative factors included in the applicable standards (Refer to ISAE 3000 (Revised) and ISA 450, as applicable, for examples of qualitative factors.)

Reporting of Other Matters in the Regulation 46 and Regulation 6 reports

26. ISA 706 (Revised) – *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* defines an "Other Matter paragraph" as "A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report".

27. For ease of reference, relevant requirements (for purposes of this Guide) contained in the applicable standards relating to Other Matter paragraphs have been included in Appendix B to this Guide.

28. In the context of a regulatory assurance engagement, the following are examples of matters <u>that may meet the definition of an "Other Matter paragraph"</u>:

    a) The regulatory assurance engagement being conducted on the first submission of the statutory returns at the request of the PA.

    b) Scope changes at the request of the PA that extend beyond those communicated in the PA Directive.

    c) Where the Bank or Mutual Bank has applied their own interpretation of the Regulations in preparing the statutory returns as the Regulations do not provide adequate guidance.

    d) Early adoption of a PA Directive where such Directive has been approved by the PA but has not yet been issued by the PA.

29. In the context of a regulatory assurance engagement, the following are examples of matters that <u>would not meet the definition of an Other Matter paragraph</u> and would thus not result in an Other Matter paragraph being included in the auditor's report:

a) Misstatements that have been identified during the regulatory assurance engagement that are considered by the auditor to be immaterial (i.e. below the regulatory overall materiality or specific materiality levels). Where the PA requires these to be communicated, industry practice is to report these as matters of a housekeeping nature in an appendix to the auditor's report.

b) Where a Bank or Mutual Bank has received condonation from the PA in relation to the treatment of a specific aspect in the statutory returns and the Bank or Mutual Bank has correctly applied this in the preparation of the statutory returns.

Practical application of the materiality principles in evaluating misstatements

30. In evaluating misstatements, it is essential to understand the nature of the misstatement i.e. whether it impacts financial, prudential and/or disclosure information. This distinction is key due to the application of the specific materiality in the case of financial and prudential information, while disclosure information is normally evaluated against regulatory overall materiality, unless the auditor has determined that it is appropriate to apply a specific materiality to disclosure information as well.

31. In order to facilitate this assessment, the flowcharts provided in Appendix C may be used to assist auditors to classify misstatements in their Regulation 46 or Regulation 6 reports.

Prudential requirements

32. Prudential requirements are legislated minimum requirements (or maximum limits) that Banks or Mutual Banks are required to meet (or not to exceed). Given the cardinal role of prudential requirements reported within the statutory returns, any identified breach of a minimum requirement (or maximum limit) is considered a material misstatement and the impact on the opinion, conclusion or limited assurance conclusion should be evaluated in terms of Flowchart 2 in Appendix C.

33. To evaluate if a Bank or Mutual Bank meets the minimum requirements, a "required" quantity is compared to the "available" quantity. For example, the required capital in a Bank or Mutual Bank is compared to the available capital in the Bank or Mutual Bank when assessing whether a Bank or Mutual Bank is adequately capitalised. A further example is the required High Quality Liquid Asset (HQLA) which is compared to the available HQLA to assess if the Bank or Mutual Bank is sufficiently liquid. In the case of a maximum limit, the available quantity is compared to a "limit" instead. For example, the exposure (available quantity) to a group of connected counterparties should not exceed 25% of the Bank's Tier 1 capital (the limit), unless specific prior permission has been obtained from the PA.

34. Therefore:

In the case of *minimum requirements,* where:

a) Available quantity >/= required quantity, the prudential requirements are met; and

b) Available quantity < required quantity, the prudential requirements are not met.

In the case of *maximum limits,* where:

a) Available quantity > limit, the prudential requirements are exceeded (breached); and

b) Available quantity </= limit, the prudential requirements are not exceeded (not breached).

35. Prudential requirements are often expressed as ratios for example the capital adequacy ratio is defined as available capital / risk weighted assets. However, the misstatements in the ratio themselves are not assessed, rather misstatements in the available and required quantities/limit are assessed, unless the minimum or maximum prudential ratio has been breached or exceeded, which is always regarded as material.

36. The table below sets out the available and required quantities by prudential ratios as currently prescribed in the Regulations and relevant Directives as issued by the PA:

Prudential ratio	**Available quantity**	**Required quantity/Limit**
Capital Adequacy Ratio (CAR) (minimum requirement)	Available capital	Risk Weighted Assets x Minimum capital requirement ratio
Liquidity Coverage Ratio (LCR) (minimum requirement)	High Quality Liquid Assets	Net Cash Outflow x 100%
Net Stable Funding Ratio (NSFR) (minimum requirement)	Available Stable Funding	Required Stable Funding x 100%
Leverage Ratio (LR) (minimum requirement)	Tier 1 capital	Exposure x 4% (or 3% for GSIB[3])
Liquid Asset Requirements (minimum requirement)	Total Available Liquid Assets	Liabilities, as reduced, per BA 310 x 5%
Minimum Reserving Requirements (minimum requirement)	Total Available Minimum Reserve placed with the SARB	Liabilities, as adjusted, per BA 310 x 2.5%
Negotiable Instruments with maturity greater than 12 months (maximum limit)	NCD, PN and similar instruments with maturity greeted than 12 months	Total Funding related Liabilities per Regulation 26(16) x 20%
Negotiable Instruments (All maturities) (maximum limit)	Negotiable Instruments (All maturities)	Total Funding related Liabilities per Regulation 26(16) x 30%
Restrictions on investments in immovable property and shares (maximum limit)	Investments as adjusted per BA 130	Total Eligible Capital per the BA 700
Restrictions on investments in loans and associates (maximum limit)	Adjustments amount of investments in loans and advances	Specified liabilities to the public x10%
Net Open Foreign Currency position (maximum limit)	Net open Foreign Currency position	Eligible Capital per the BA 700 x 10%

[3] Globally Systemically Important Banks

Prudential ratio	Available quantity	Required quantity/Limit
Large Exposure (maximum limit)	Exposure per counterparty (or group of connected counterparties) (as per LEX rules)	Tier 1 capital x 25%
Supervisory Outlier Test[4] (maximum limit)	Tier 1 capital	Largest EVE Sensitivity x 15%

Other considerations

37. The BA 610 (Foreign Operations of South African Banks) is a summarised return applicable to banking foreign subsidiaries of the South African Banks and for purposes of the regulatory assurance engagement considered a disclosure return. It provides, at a summarised level, the information that South African Banks are required to provide to the PA. For purposes of the financial information reported in the BA 610 return, it is industry practice to apply statutory overall materiality which is consistent with the South African operations.

[4] Applicable as from the date the Supervisory Outlier Test becomes effective in South Africa which in turn follows the issuance of the appropriate criteria by the Prudential Authority.

Appendix A: Categorisation of the returns

The subject matter of the regulatory assurance engagement is the statutory returns, prepared in accordance with the requirements of the Regulations. The returns can be classified under the following four broad categories being:

Category 1: Financial returns	**Category 2: Risk returns**	**Category 3: Consolidated returns**	**Category 4: Economic and other returns**
The financial returns represent financial information consistent with the financial statements of the Bank. They include the balance sheet, income statement and off-balance items. There is therefore significant overlap with the financial statements. Memorandum items included in these returns are not considered to be financial in nature.	The risk returns are made up of returns that provide risk information about the risks within the Bank including credit, market, operational, equity, liquidity, interest rate risk etc. They are by far the majority of the returns submitted. The nature of the information presented in these returns can be further analysed as either impacting a ***prudential*** or a ***disclosure requirement***. This distinction is critical.	The consolidated returns provide information about the consolidated group and the capital adequacy ratios of the Bank and the group. Similarly to the risk returns, the nature of the information presented in these returns can be further analysed as either impacting a ***prudential*** or a ***disclosure requirement***. This distinction is critical.	These returns provide economic information about the Bank. The auditors' responsibility with regard to these returns is an agreed upon procedures engagement.
South African operations			
BA 100: Balance sheet BA 110: Off balance sheet activities BA 120: Income statement	BA 130: Restrictions on investments BA 200: Credit risk (monthly) BA 210: Credit risk (quarterly) BA 300: Liquidity risk, including LCR and NSFR BA 310: Minimum reserves BA 320: Market risk BA 325: Daily risk returns BA 330: Interest Rate Risk in the Banking Book BA 340: Equity risk BA 350: Derivative information BA 400: Operational risk BA 410: Operational risk disclosures BA 500: Securitisation	BA 600: Consolidated supervision BA 700: Capital adequacy	BA 125: Shareholder information BA 900: Economic returns

<table>
<tr><th>Category 1: Financial returns</th><th>Category 2: Risk returns</th><th>Category 3: Consolidated returns</th><th>Category 4: Economic and other returns</th></tr>
<tr><td colspan="4">Foreign operations of South African Banks (BA 610)</td></tr>
<tr><td>Sections A, B, C</td><td>Section D, E, F, G, H, I, J</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Nature of information:
● Financial information</td><td>Nature of information:
Risk information, impacting either:
● Prudential, or
● Disclosure, or
● Both.</td><td>Nature of information:
Capital and consolidated information impacting either:
● Prudential, or
● Disclosure, or
● Both.</td><td>Nature of information:
Not subject to an assurance engagement - covered by an agreed upon procedures engagement</td></tr>
<tr><td colspan="4">Mutual Banks</td></tr>
<tr><td>DI 100: Balance sheet
DI 110: Off-balance-sheet activities
DI 200: Income statement</td><td>DI 300: Liquidity risk-maturity ladder
DI 310: Minimum reserve balance and liquid assets
DI 402: Counterparty risk
DI 403: Foreign operations of South African Mutual Banks

DI 410: Interest rate risk
DI 420: Market risk
DI 430: Trading risk
DI 500: Credit risk
DI 505: Report of large exposures
DI 520: Assets bought-in
DI 600: Currency risk
Di 700: Restrictions on investments loan and advances
Di 701: Asset backed Securitisation
DI 702: Return regarding investments and interest held.</td><td>DI 400: Capital Adequacy
DI 401: Consolidated balance sheet</td><td>N/A</td></tr>
</table>

Appendix B: Relevant requirements (for purposes of this Guide) contained in the applicable standards

These extracts reflect paragraphs in the International Auditing and Assurance Standards Board's 2022 Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements

Relevant standard	Requirements for determining materiality	Requirements for evaluating misstatements	Requirements for Other Matters
ISA 320, *Materiality in Planning and Performing an Audit* ISA 450, *Evaluation of Misstatements Identified during the Audit* ISA 706 (Revised),*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*	Paragraph 4 of ISA 320 reads as follows: *"The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:* *(a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;* *(b) Understand that financial statements are prepared, presented and audited to levels of materiality;* *(c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and* *(d) Make reasonable economic decisions on the basis of the*	Paragraph 5 of ISA 450 reads as follows: *"The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial."* Paragraph 11 of ISA 450 reads as follows: *"The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:* *(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and* *(b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole."*	Paragraph 10 of ISA 706 (Revised) reads as follows: "*If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:* *(a) This is not prohibited by law or regulation; and* *(b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report."*

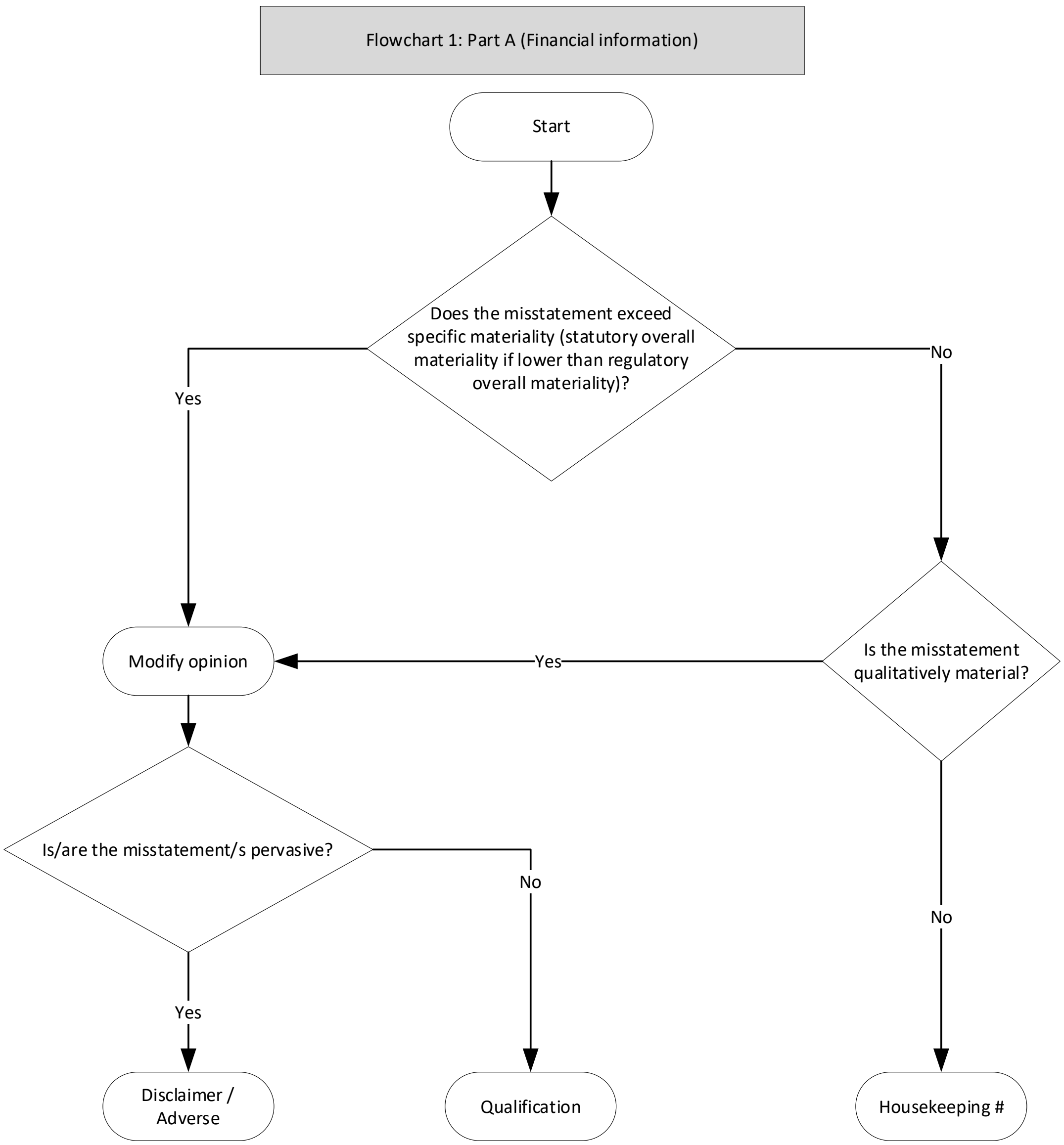
Relevant standard	Requirements for determining materiality	Requirements for evaluating misstatements	Requirements for Other Matters
	information in the financial statements." *Paragraph 5 of ISA 320 reads as follows:* *"The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report."* As it relates to determining materiality and performance materiality when planning the audit, paragraph 10 of ISA 320 reads as follows: *"When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures."*		

Relevant standard	Requirements for determining materiality	Requirements for evaluating misstatements	Requirements for Other Matters
ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*	Paragraph 15 of ISRE 2410 reads as follows: *"The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:* • *Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements."*	Paragraph 30 of ISRE 2410 reads as follows: *"The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information."* In terms of paragraph 33 of ISRE 2410: *"The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information."*	ISRE 2410 does not include any requirements as it relates to the inclusion of Other Matters in the review report. However, paragraph 3a of ISRE 2410 states that the standard may be applied, adapted as necessary in the circumstances, when an entity's auditor undertakes an engagement to review historical information other than interim financial information. Based on this it is considered appropriate for purposes of the regulatory assurance engagement to apply the principles in the other applicable standards as it relates to the inclusion of Other Matters in the regulatory assurance reports
ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*	Paragraph 43 of ISRE 2400 (Revised) reads as follows: *"The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures."* Paragraph A72 reads as follows:	Paragraph 70 of ISRE 2400 (Revised) reads as follows: *"The practitioner shall consider the impact of:* *(a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and*	Paragraph 90 of ISRE 2400 (Revised) reads as follows: *"If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's*

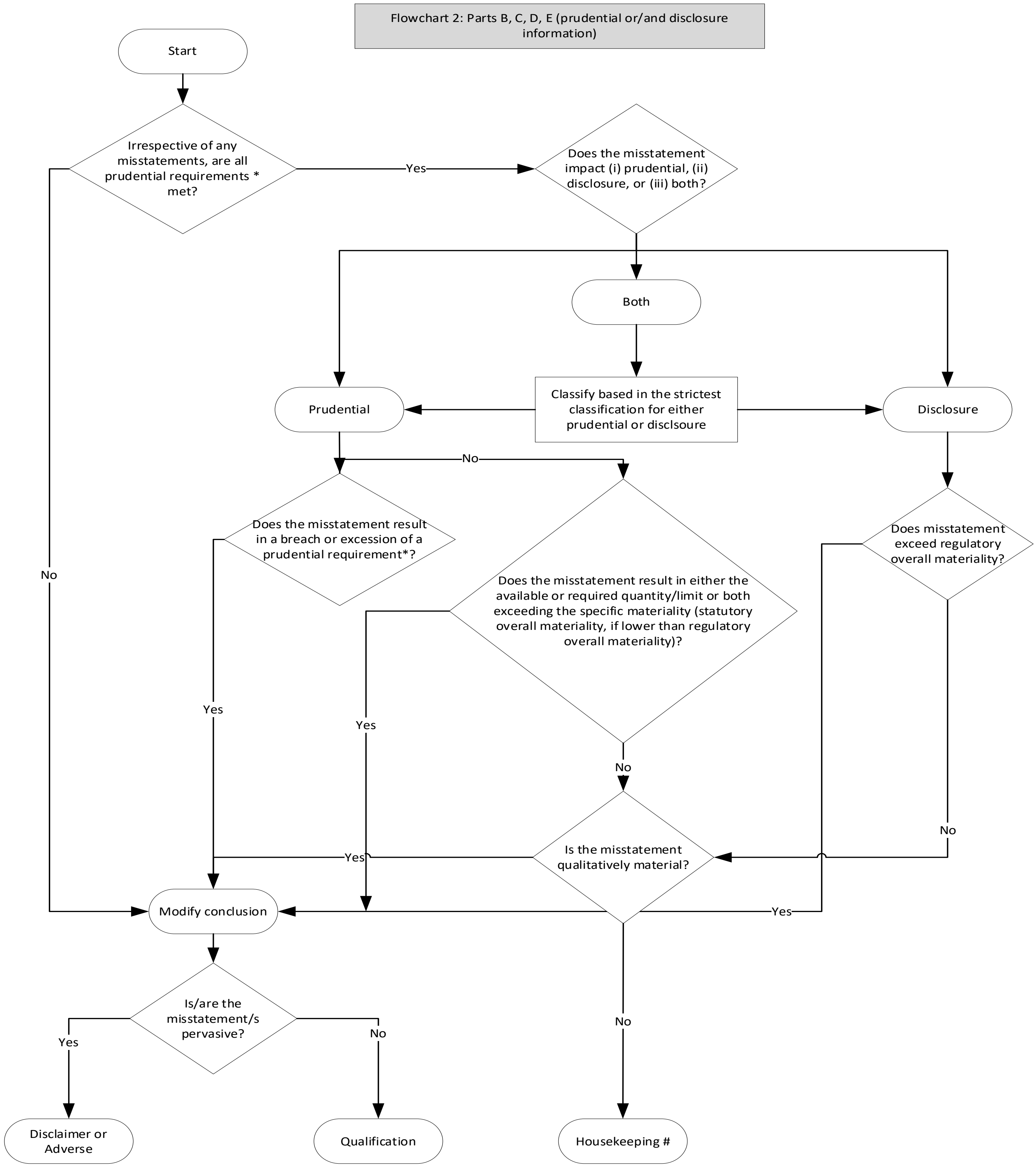
Relevant standard	Requirements for determining materiality	Requirements for evaluating misstatements	Requirements for Other Matters
	"The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the practitioner to assume that users: • *Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information in the financial statements with reasonable diligence;* • *Understand that financial statements are prepared, presented and reviewed to levels of materiality;* • *Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and* • *Make reasonable economic decisions on the basis of the information in the financial statements.* *Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific*	*(b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments."*	*responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading."*

Relevant standard	**Requirements for determining materiality**	**Requirements for evaluating misstatements**	**Requirements for Other Matters**
	users, whose information needs may vary widely, is not ordinarily considered.		
ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*	Paragraph 44 of ISAE 3000 (Revised) reads as follows: *"The practitioner shall consider materiality when:* (a) *Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and* (b) *Evaluating whether the subject matter information is free from material misstatement."* Paragraph A95 of ISAE 3000 (Revised) reads as follows: *"Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment."*	Paragraph 51 of ISAE 3000 (Revised) reads as follows: *"The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial."* Paragraph A120 of ISAE 3000 (Revised) provides the following as it relates to establishing what would be considered as 'clearly trivial': *"The practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the subject matter information. "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with paragraph 44, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial."*	Paragraph 73 (b) of ISAE 3000 (Revised) reads as follows as it relates to Other Matters: *"If the practitioner considers it necessary to:* *Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph), and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter."*

Appendix C: Flowcharts



Reporting of housekeeping matters above clearly trivial threshold based on, for example a range of up to 5% of the applicable materiality level for financial information.



* In the case of the BA 610, the prudential requirement includes the group's compliance with the minimum capital adequacy and minimum liquidity coverage ratios
\# Housekeeping matters reported where error is above clearly trivial threshold levels based on, for example a range of up to 5% of the applicable materiality level for prudential and/or disclosure information.