





About APRA

The Australian Prudential Regulation Authority (APRA) was established on 1 July 1998. APRA is the prudential regulator of the financial services industry including banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry. It currently regulates \$1.5 trillion in assets for 20 million Australians. APRA is fully funded by the industries that it supervises.

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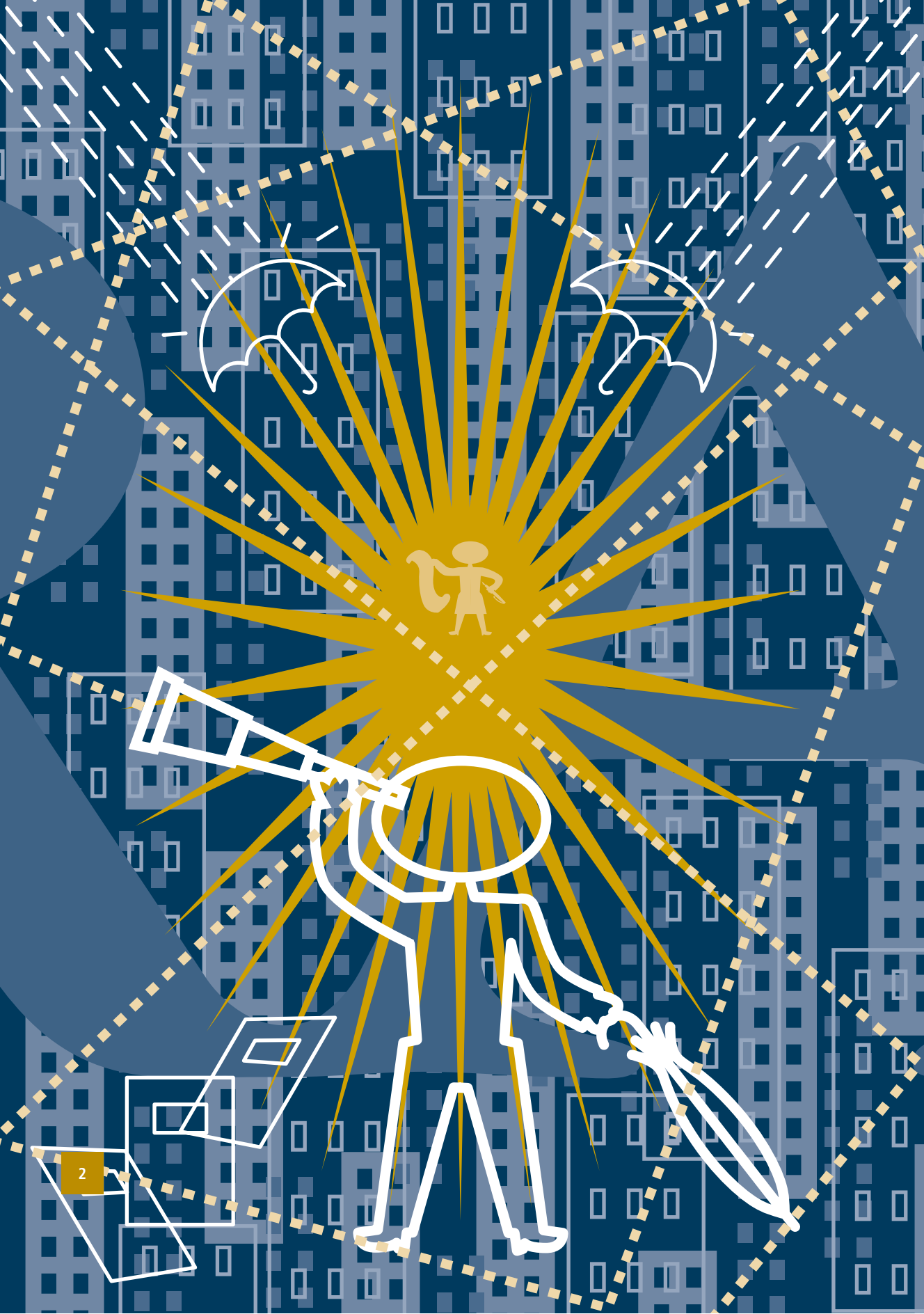
Our vision is to be a world-class integrated prudential supervisor recognised for its leadership, professionalism and innovation.

Our mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.

Our values are underpinned by the highest standards of individual and corporate integrity, as well as by flexibility, openness and accountability.

Our supervisory approach is forward-looking, primarily risk-based, consultative, consistent and in line with international best practice. This approach also recognises that management and boards of supervised institutions are primarily responsible for financial soundness.

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From the Chair and CEO

The past year has been an extremely busy and testing one for regulators throughout the world. Political and economic events both contributed significantly to market volatility that, in turn, exposed vulnerabilities in the balance sheets of many financial institutions. Confidence in markets and regulators was eroded by a series of scandals that challenged the integrity of the disclosure regime upon which modern financial markets are based.

The Australian financial system weathered these disruptions better than most. It remains fundamentally sound and well-placed to continue supporting the strong performance of the Australian economy.



While the year has been demanding, APRA made substantial progress with its major reforms of Australia's prudential regulatory and supervisory framework. Considerable effort and resources were devoted to planning and implementing significant reforms in the framework for general insurance, while also dealing with the consequences of problems that had arisen in earlier years. APRA also reviewed its internal practices and procedures and instituted a number of changes designed to increase its effectiveness as a regulator.

General insurance reforms

Implementing the new supervision regime for general insurers was a major focus of efforts over the past year. This involved finalising the new set of prudential standards for general insurance and then processing applications from the 140 or so companies that applied to be re-licensed by 1 July 2002, the starting date of the new regime. This was the culmination of a reform project initiated by APRA soon after it was established in mid-1998.

The supervisory foundations have now been laid for a much stronger and better-managed general insurance sector in Australia. The new prudential requirements and other elements of the new regime will significantly reduce the likelihood of another HIH-like collapse.

The Royal Commission into the collapse of the HIH group of companies commenced in September 2001 and is due to report in February 2003. For APRA, this is a welcome opportunity to provide a comprehensive account of its supervision of HIH from mid-1998 to early 2001 and to discuss the lessons that emerge from that period. The Commission also provides a forum for considering the further improvements that APRA sees as

desirable in the regulation of general insurance companies. We have provided the Commission with a policy paper on these issues and look forward to the opportunity to discuss them in more detail.

The cost and availability of certain types of insurance, including medical indemnity, public liability, terrorism and builders' warranty became a major issue during the year. While some of these problems were uniquely Australian, others reflected trends worldwide. In addition to pressures arising from the withdrawal of HIH from the insurance market, other factors at work included effects of the events of September 11 on the re-evaluation of terrorism risk and the capacity of the international reinsurance industry. Trends toward the more costly settlement of claims and recognition of the past under-pricing of long-tailed insurance risks were also important considerations. All of these factors affected specifically the areas of medical indemnity and home owners' warranty where Government intervention was needed to ensure continuity of medical and building services.

Although these issues in insurance went well beyond the prudential, APRA was closely involved in discussions with industry and Government. It is in the community's long-term interest to have a healthy,

viable insurance industry and this requires premium levels that properly cover the underwriting risks. If the premiums needed to achieve this are unacceptably high, the appropriate response is to direct attention to the underlying sources of risk, including that in the legal system. It is not appropriate to compromise prudential standards or to impose artificial caps on premiums.

Compensation schemes

As recognised internationally, no prudential supervisory system can or should aspire to provide an absolute guarantee against the failure of financial institutions. Such a guarantee would require a level of regulatory intervention that would impose costs far in excess of the benefits involved.

In response, many countries have introduced support schemes to reduce the impact of institutional failure on the community and to assist the regulator in managing industry exits.

The important role of compensation was underlined by the Government's decision to utilise the provision in the *Superannuation Industry (Supervision) Act* (SIS Act) to help meet losses for certain investors arising in the case of the Approved Trustee, Commercial Nominees. This provision may be activated only when fraudulent conduct or theft is involved.

The possible role for broader compensation schemes in Australia is currently under review. APRA continues to work on this important issue and will consult with Government and industry over the coming year.

Superannuation

APRA's frontline supervision of financial institutions has been intensified in many areas, with a particular focus on superannuation funds. On-site visits have been stepped up markedly and we have made a concerted attack on the longstanding problems of funds-reporting and the late or non-payment of supervisory levies.

The overall incidence of serious problems in the sector has been extremely rare. However, APRA has identified superannuation as an area requiring closer attention and a stronger supervisory framework to ensure this good record is maintained. Supervision of superannuation is especially challenging because of the large number and diversity of funds, the absence of entry tests (except for Approved Trustees) and the community expectations of safety from entities that are essentially fund managers.

APRA contributed to a Productivity Commission review of relevant legislation last year and was represented on the Government's Superannuation Working Group.

In these and other public discussions, we made our views known as to the reforms we believe are critically needed if we are to supervise the superannuation industry to the level of security expected by the community.

The Government is currently considering its approach to superannuation reform and we look forward to the outcome of its deliberations.

Other policy reforms

APRA proceeded with important policy reform work on conglomerate groups that include a deposit-taker; good practice standards for outsourcing by deposit-takers; and harmonising supervisory requirements for life insurers and friendly societies. APRA also contributed to international work on the reform of banks' capital adequacy requirements.



Supervisory processes

As part of the continuous improvement of its internal practices and processes, APRA this year re-designed its system for risk-rating regulated financial entities. A more sophisticated system, called PAIRS, is being rolled-out currently and will not only help to identify emerging problems earlier but also help determine the amount and nature of supervisory and enforcement activity that each institution warrants. We plan to introduce further refinements on the basis of deeper research into early indicators of financial failure and the collection of more useful statistical data.

In addition to the early warning system, APRA has introduced more formal processes to ensure that management of high-risk institutions is escalated to senior levels within APRA, all appropriate resources are brought to bear on problem cases and generally to foster a stronger enforcement culture in relation to regulated entities where warranted.

We have made further progress in formalising APRA's business plans and in selecting meaningful Key Performance Indicators (KPIs). This is not an easy task for a prudential regulator pursuing an ultimate outcome as broad and subjective as "community confidence in the financial system", but it is a vitally important one.

APRA also established a Quality Assurance and Consistency Unit to help develop standards of best supervisory practice and to monitor divisional performance against those standards.

Resources

In carrying out the critical tasks of promoting confidence in the financial system and reducing the risk of institutional failure, APRA relies on two basic

resources: the powers provided under legislation and subsidiary standards and regulations and the employment of sufficient high-quality, professional staff.

Since establishment, APRA has made major improvements in the regulatory regimes that it inherited. This has included efforts to harmonise approaches across industries in line with the vision behind APRA's establishment as an integrated prudential regulator. However, while harmonisation has been possible in a number of areas, experience gained from dealing with institutional failures and problems over the past year or two has served to highlight major differences in the powers that APRA has in both generating and enforcing regulatory policies in the various industry groupings that it supervises. Not only does this create inconsistencies between community expectations and reality in respect of APRA's capacity to meet its legislated objectives, but also it has handicapped progress towards genuine integrated regulation across the financial services sector.

Against this background, APRA has commenced a comprehensive stock-take of its present supervisory and enforcement powers. The aim is to identify all significant gaps and inconsistencies in supervisory arrangements for all sectors, with a particular focus on those that restrict our effectiveness. Where weaknesses can be addressed under existing statutory powers, we will do so, in consultation with industry. Where legislative change is required, as in superannuation, we will develop proposals for Government consideration.

In conjunction with the review of powers, APRA embarked on a reassessment of its current staffing and financial resources. The first part of this has been a detailed comparison with similar agencies overseas. While the full results of this benchmarking study will be available in the near future, preliminary indications are that APRA is under-resourced relative to similar agencies overseas and almost certainly under-resourced to achieve the results rightly expected of it by the public and industry.

Changing scene

We would like to record some changes in senior staff. Les Phelps, Executive General Manager of Specialised Institutions Division, retired in August 2002. We thank Les for his tireless work in establishing APRA since 1998. His position has been filled by Brandon Khoo, formerly General Manager of APRA's Northern Region. Two General Managers also left APRA – Bill Gole retired due to ill health and Craig Thorburn took up a senior position with the World Bank. We wish them well for the future.

On the other side of the ledger, we welcomed to APRA Charles Littrell as Executive General Manager of Policy, Research and Consulting Division and three new General Managers, Helen Martin, Mark Baxter and John Doble. It is encouraging that we have been successful in recruiting such capable and experienced people from industry.

We also welcomed two new Board members, Rod Atfield and Berna Collier. Their appointments brought APRA's Board to full strength for the first time.

On behalf of the Board, we would like to thank every member of APRA's staff for his or her dedication and commitment through 2001/02. There is no doubt that, because of their great efforts, APRA has emerged from a challenging year stronger, more confident and better equipped to continue with its important job for the Australian community.



Dr Jeffrey Carmichael
Chair of the Board



Graeme Thompson
Chief Executive Officer



The Year at a glance

July 2001	APRA and the Australian Taxation Office (ATO) jointly issue a circular explaining the employer's obligation to send employees' voluntary superannuation contributions promptly to the nominated superannuation fund.
August	APRA releases a draft prudential standard on board composition for all Authorised Deposit-taking Institutions (ADIs) for industry comment. Federal Parliament passes amendments to the <i>Insurance Act 1973</i> to ratify APRA's new prudential supervision framework for general insurance.
October	APRA releases a policy discussion paper finalising its framework for the prudential supervision of conglomerate groups that include an ADI. Begins campaign to remind superannuation trustees of their obligation to lodge annual returns on time and of the consequences of late lodgement.
November	Releases latest versions of proposed new prudential standards for general insurance companies in Australia. Releases draft prudential standard on outsourcing by ADIs. Seeks feedback on two reports jointly released by the Basel Committee on Banking Supervision (Basel Committee), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Securities Commissions (IOSCO). Issues 'show cause' letters to superannuation fund trustees who failed to lodge annual returns for their funds by 31 October.
December	Releases for comment four draft-revised prudential standards for ADIs, which give effect to a policy framework for prudential supervision of conglomerate groups containing ADIs. Accepts an enforceable undertaking from a superannuation fund trustee for the first time following changes introduced to the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act).
February 2002	Directs Australasian Medical Insurance Ltd (AMIL) to raise sufficient capital by 30 June 2002 to meet current minimum requirements under the <i>Insurance Act 1973</i> . Finalises the six new prudential standards for general insurance companies operating in Australia and issues a transitional standard, providing APRA with the capacity to approve the appointment of auditors and actuaries under the new prudential framework, ahead of its introduction on 1 July.

March

Releases the first results of a new data collection providing detailed information on banking points of presence provided by ADIs.

With APRA's approval, the Life Insurance Actuarial Standards Board (LIASB) issues harmonised actuarial standards for life insurers and friendly societies.

April

Releases for public comment a draft prudential standard to preserve the minimum capital requirement of \$10 million for life insurers other than friendly societies as a result of the LIASB's harmonisation of the actuarial standards for life insurers and friendly societies.

Issues a warning urging consumers to exercise caution before entering into insurance policies with unauthorised foreign insurers.

May

Releases a new prudential standard on outsourcing by ADIs to become effective 1 July 2002.

Issues a circular explaining its interpretation of the requirements of the SIS Act for winding up a superannuation fund.

Announces its serving of notice on 11 'taxi clubs' that appeared to be illegally offering Victorian taxi owners and drivers comprehensive insurance for their taxis. APRA also warns consumers of unauthorised insurers operating in the Victorian taxi industry.

Meets with the nation's Medical Defence Organisations (MDOs) as part of a long-term commitment by the industry to ensure the security of medical indemnity coverage.

June

Issues a prudential standard prescribing a minimum capital requirement for life insurance companies under the *Life Insurance Act 1995*.

Commences prosecutions against trustees of superannuation entities regulated under the SIS Act who failed to lodge a 2000/01 Annual Return with APRA.

July

APRA's new prudential regime for Australian general insurance companies, the *General Insurance Reform Act 2001*, becomes effective with APRA reauthorising 111 general insurance companies to write new business.

APRA denies insurance company Rural and General Insurance Limited (Rural and General) reauthorisation under the new general insurance reforms.

New reporting standards for ADIs and general insurers become effective.

Business planning

APRA this year enhanced its business planning framework to integrate APRA's mission, vision, values and approach with measurable outcomes and outputs.

Two new key performance indicators were introduced into the business planning process expressed as the Performing Entity Ratio¹ (PER) and the Money Protection Ratio² (MPR).

APRA's business planning and measurement

APRA this year enhanced its framework for business planning and performance measurement through the integration of corporate, divisional and individual plans. The enhanced business measurement process integrates business outcomes and outputs with APRA's mission and vision. The primary business outcome of APRA is to enhance public confidence in Australia's financial institutions through a framework of prudential regulation, which balances financial safety, efficiency, competition, contestability and competitive neutrality. Key strategies have been identified to achieve these business outcomes in a cost-effective manner. Indicators of performance will be further refined.

The business plan is organised into six Key Result Areas (KRAs). They are:

- **Supervision**, enforcement and rehabilitation;
- **Policies**, standards and guidelines for prudential supervision;
- **Prudential advice** – relations with external stakeholders including Government, Parliament, media, industry, professional bodies, general community, international agencies and others;
- **Staff** numbers required and quality of people, now and into the future;
- **Infrastructure** to support operations; and
- **Accountability** framework.

KRAs are outlined according to prime objective, strategies, actions and prime Key Performance Indicators (KPIs).

KPIs assist with monitoring the KRAs. APRA's business plan is shown here in summary form. The first three KRAs support the three APRA outputs of policy, surveillance and prudential advice. Within the second group, are the three KRAs (staff, infrastructure and accountability) that enable the first three to be performed within a sound administrative framework.

¹ Performing Entity Ratio (PER) is the number of performing entities over the total number of APRA regulated entities.

² The Money Protection Ratio (MPR) is the dollar value of funds protected by APRA in performing entities over the total dollar value of funds protected by APRA in all regulated institutions.

KRAs			
	SUPERVISION	POLICY	PRUDENTIAL ADVICE
Prime objective	Minimise financial loss to depositors, policyholders and fund members through appropriate intervention	Develop prudential policies, standards and guidelines for minimising losses to depositors, policyholders and fund members	Maintain open communication and constructive relationships with stakeholders
Strategies	<ul style="list-style-type: none"> • Supervision based on risk-rating • Responsive to economic and industry trends • Vigorously apply enforcement • Enhanced management of workflow and processes • Closely monitored performance 	<ul style="list-style-type: none"> • Reform policies on conglomerates, convergence, and international issues to incorporate risk-based dimensions • Contribute to international policy development • Policy responds to supervision issues, industry and macroeconomic trends 	<ul style="list-style-type: none"> • Government and Treasury fully informed on policy development, reforms and emerging issues • Open communications to all stakeholders • Prompt response to public inquiries
Actions	<ul style="list-style-type: none"> • Implement enhanced risk-rating system • Prompt response to economic and industry intelligence • Early identification of enforcement triggers • Upgrade workflow and processes • Drive consistency of practice across divisions 	<ul style="list-style-type: none"> • Implement the policy work program for: superannuation, Basel 2 Capital Accord, conglomerates, protection schemes, the Life Act and powers for enforcement and managing institutional failure • Maintain active membership of key regulatory and industry forums • Maintain close coordination with RBA and ASIC and lead consultation on policy changes and reform 	<ul style="list-style-type: none"> • Liaise with Ministers and Treasury on proposed legislative changes • Implement proactive communication plans on issues of public interest • Maintain effective and timely liaison with industry, professional and consumer groups • Maintain best practice in the Call Centre including management of Return of Benefits
Prime KPIs	<ul style="list-style-type: none"> • The Performing Entity Ratio • Money Protection Ratio • Save Ratio • Number of institutional visits • Number of institutions entering and leaving enforcement • Supervision ratio 	<ul style="list-style-type: none"> • Risk by institutional ranking • Statistical profile of institutions by number and value • Policy development to plan • Non-conformance to policy and legislation • Policy development time to total time 	<ul style="list-style-type: none"> • Public and media understanding of prudential issues • Spend on communication programs/plan • Number of meetings with Minister and Treasury • Number of meetings with industry, professional and consumer groups • Call Centre response times

KRAs			
	STAFF	INFRASTRUCTURE	ACCOUNTABILITY
Prime objective	Sufficient staff with skills, experience and knowledge that meet prime objectives and strategy	Cost-effective infrastructure that fully supports the prime objectives with professional support services	Assurance that objectives are met and risks are managed
Strategies	<ul style="list-style-type: none"> Committed to excellence APRA as employer of choice Outstanding managerial and technical expertise 	<ul style="list-style-type: none"> Integrated depository of statistical data supporting the rapid distribution of financial information to key users Expanded management and accumulation of knowledge Best practice financial and information technology systems processes 	<ul style="list-style-type: none"> Meet statutory and government obligations Meet international standards Improved performance through planning and measurement Internal risks assessed and managed Fully-funded to meet objectives
Actions	<ul style="list-style-type: none"> Update HR programs by mid 2002 Innovative recruitment strategies, career planning, skills development based on capability framework 	<ul style="list-style-type: none"> Complete Statistics Project, integrate and improve delivery of industry statistics Implement electronic document management system Review sources of funding including levies and fees for service Monitor delivery of services level agreements 	<ul style="list-style-type: none"> Senior management to attest to corporate governance Implement the Basel and IAIS core principles and IMF framework as agreed with Board Broaden Quality Assurance agenda Review the adequacy of funding Integrate planning, measurement and performance Implement Risk and Audit programs
Prime KPIs	<ul style="list-style-type: none"> Number of Staff to Plan Staff turnover ratio Training per employee Prudential supervision experience Activity by function and by industry 	<ul style="list-style-type: none"> Industry returns on time Levies collected to plan Operating and capital expenditure to budget Cash flow to plan Occupancy per employee IT performance to targets 	<ul style="list-style-type: none"> Number of control risks rated as high Number of audit issues open Accumulated reserves/levies Level of compliance with Basel and IAIS Core Principles Full set of operational KPIs Quality metrics to be further developed

This year, APRA's business plan introduced two new KPIs – the Performing Entity Ratio (PER) and the Money Protection Ratio (MPR). The PER and MPR measure the number of institutions and their protected accounts that have been successfully operating within the Australian financial system and are supervised by APRA. They are a general indicator of APRA's supervisory performance.

Based on the estimated cumulative number of institutions and losses incurred by creditors, policyholders and superannuation fund members divided by the average annual number of institutions and protected accounts since APRA's inception in 1998, the PER is 99.8 per cent and MPR is 99.6 per cent. The movement of the PER and MPR since APRA's inception is shown below. Both ratios account for the HIH Group's estimated \$5.3 billion³ loss incurred by creditors and policyholders.

The Performing Entity Ratio (PER) and Money Protection Ratio (MPR)

Financial Year	Number of Failures ¹	Losses (\$million)	Number of Institutions ²	Protected Accounts (\$billion) ³	Annual PER	Annual MPR
1999	2	10.12	4475	1,219	99.96%	99.99%
2000	3	308.29	4455	1,390	99.93%	99.98%
2001	3	5325.8	4252	1,485	99.93%	99.64%
2002	0	0	3940	1,511	100.00%	100.00%

¹ Failures exclude unresolved cases and failures due to employer sponsors in superannuation funds.

² The number of institutions excludes Small APRA Funds (SAFs) and representative offices of foreign banks.

³ Protected accounts is an estimate of the funds protected by APRA as defined by relevant legislation and does not equal total assets.

³ Liquidator's advice to creditors on April 2 2002. Includes estimated losses for both domestic and overseas policyholders.



Supervision

Forming an accurate opinion of the risk profile for the 12,091 institutions regulated by APRA is an essential part of ensuring the continued protection of Australian policyholders, depositors and superannuation fund members. APRA regulates \$1.5 trillion in assets on behalf of 20 million Australians.

One general indicator of APRA's performance over the four years since its formation is the 99.8 per cent Performing Entity Ratio (PER) – a creditable track record.

The Year in Review

During the year, APRA completed the major task of **implementing a risk assessment and supervision strategy for the nearly 4,000 institutions** under its watch. This milestone was achieved in mid-2002, taking about two years to complete. The process is part of continuing work to ensure supervisory efforts and resources are directed to provide the best possible protection for Australian depositors, superannuation fund members and policyholders.

APRA also significantly increased its supervision of regulated superannuation entities, visiting a high proportion of small superannuation funds.

However, the most significant movement was the marked rise in the number of off-site reviews of superannuation funds, due mainly to APRA's focus on the collection and analysis of annual prudential returns.

APRA significantly increased the intensity of supervision throughout the year, concentrating on the superannuation and general insurance sectors.

Off-site reviews of ADIs also increased, with the review of documentation to ensure compliance with the new harmonised prudential standards.

A comprehensive 'health check' of the Australian general insurance sector was undertaken during the year. APRA reviewed capital adequacy, risk management strategies and liability valuation of each insurance company prior to the introduction of a new prudential regime on 1 July 2002. This process resulted in the re-licensing of 111 general insurance companies to write new business.

APRA also extended its targeted reviews under tripartite arrangements outside the banking sector, meeting for the first time with general insurers and their external auditors. This is another step towards APRA's long-term goal of a common prudential supervision framework across industry sectors and APRA will continue to extend the tripartite arrangements in 2002/03.

The 2001/02 financial year has been a hard one for many Australian institutions in the wake of the events of September 11 in New York, the resulting tightening in Australia's economy and recent weak equity markets. Yet despite this, only about 0.2 per cent of the institutions regulated by APRA have failed. While no failures are desirable, the need for a viable, competitive financial system necessitates some risk.

<i>APRA regulated institutions</i>	Number		%	Assets (\$ billion)		%
	30/6/01	30/6/02	Change from previous year	30/6/01	30/6/02	Change from previous year
ADIs	279 ¹	271 ²	-2.9%	844.7	940.2	11.3%
Banks	51	50	-2.0%	807.7	897.6	11.1%
Building societies	18	16 ²	-11.1%	13.1	12.7 ²	-3.1%
Credit unions	205	200	-2.4%	23.9	25.4	6.3%
Other ADIs	5	5	-	N/A	4.5	N/A
Representative offices of foreign banks	27	24	-11.1%	N/A	N/A	N/A
General insurers	162	153	-5.6%	59.8	66.3	10.9%
Life insurers	42	42	-	188.4	188.8 ³	0.2%
Friendly societies	42	39	-7.1%	6.1	6.1	-
Approved trustees	159	160	0.6%	N/A	N/A	N/A
Superannuation entities	11,537	11,402	-1.2%	300	330.8 ⁴	10.3%
Public offer funds	391	373	-4.6%	156.8	181.0 ⁴	15.5%
Non-public offer funds	2,862	2,389	-16.5%	136.2	142.6 ⁴	4.7%
Small APRA Funds (SAFs)	7,699	8,127	5.6%	2.3	2.6 ⁴	14.3%
Approved deposit funds	398	324	-18.6%	2.5	1.5 ⁴	-38.8%
Eligible rollover funds	10	10	-	2.5	3.0 ⁴	21.2%
Pooled superannuation trusts	177	179	1.1%	N/A	NA	N/A
TOTAL	12,248	12,091	-1.3%	1,399	1,532	9.5%

<i>APRA visits, consultations and tripartite 2001/02</i>	On-site visits, consultations and tripartite	
	2001	2002
ADIs	311	235
Friendly societies	19	16
General insurers	67	141
Life insurers	9	7
Approved trustees	54	75
Superannuation funds	568	998
Conglomerates	38	26
TOTAL	1,066	1,498

¹ Applies to domestic Australian banks

² As at 31 March 2002

³ Assets for superannuation entities reflect assets on the last annual return (2001, 2000 or 1999)

⁴ Of the \$188.8 billion in total assets at end of March, \$160.9 billion relates to superannuation assets.

Implementing world's best practice risk rating

Australia's financial sector is among the largest, most diverse and dynamic industries in our economy.

Drawing on and refining experiences of international best practice, APRA this year continued work on the implementation of an enhanced, statistically quantifiable risk-rating system called PAIRS – Probability and Impact Risk Rating System. PAIRS adds a new dimension to risk-rating by including quantitative weighting for the *impact* of an institution's failure in addition to measuring the *probability* of failure.

This new risk-rating system was designed to ensure the appropriate level of supervision is applied according to each entity's risk profile. It builds on APRA's current risk-based approach and will be applied to all supervised institutions over the next 12 to 18 months.

General Insurance

General insurance reform

The implementation of the *General Insurance Reform Act 2001* and associated prudential standards was a significant achievement in delivering increased protection for Australian policyholders. The amending legislation and new standards substantially upgrade the capital and governance requirements for general insurers and required every general insurer wishing to operate after 30 June 2002 to apply for reauthorisation.

APRA's reauthorisation process involved a rigorous 'health check' of each Australian general insurer's situation and business practices. By 30 June 2002,

146 general insurers were authorised under the Insurance Act. Of these, 35 are no longer writing new insurance business and are running off their existing insurance business. Before June 2002, a number of general insurers were notified that APRA considered they could not meet the new requirements. These insurers were inadequately capitalised or were otherwise unable to satisfy APRA's authorisation criteria. Most of these insurers received capital injections or improved their risk management practices. However, after assessing APRA's revised requirements and their own business situation, seven general insurers decided they would no longer write new business. APRA imposed formal conditions on a further nine general insurers, requiring capital transition plans in order to bring their capital positions into line with APRA's requirements over the next two years. These conditions have been published in the Government Gazette, as required by the legislation, in the interests of transparency and an informed market.

Reinsurance

Direct effects on Australian insurers as a result of September 11 were small with claims in Australia representing about one per cent of average annual claims. Claims from overseas on Australian-owned insurance groups were double this level and, subsequently, one insurer raised additional capital.

However, the indirect effects of September 11 will have longer-term implications. Reinsurers are now not offering cover for lines of insurance that have exposures to terrorism such as property, workers compensation, public liability, business interruption. The overall cost of reinsurance has increased and reinsurers are requiring insurers to retain more risk.



In March 2002, APRA also sought information from general insurers on financial reinsurance contracts where the financial and strategic motivations of the reinsured take precedence over risk transfer needs. The responses indicate that financial reinsurance contracts currently being used by general insurers involve a legitimate risk transfer between direct insurers and reinsurers and direct insurers were accounting for the arrangements appropriately. APRA's new general insurance regime introduced on 1 July 2002 also enables an appropriate review of and accounting recognition for multi-year reinsurance contracts.

Rising premiums

The cost of reinsurance, the collapse of HIH and a worsening claims' experience led to significant premium increases in public liability, builders' warranty and medical indemnity insurance. APRA views the improved profitability from these increases as positive from a prudential viewpoint, and has been closely involved in discussions with industry and Government to ensure the long-term health and viability of the industry. For this to occur, there need to be constraints in the economic and legal environment that ensure insurance can be priced accurately and remain affordable.

HIH Insurance Group

Under the provisions of the Corporations Act, the Supreme Court of NSW placed HIH Insurance, including its seven insurers authorised under the Insurance Act, into liquidation on 27 August 2001. The Liquidator's most recent loss estimates range between \$3.6 billion and \$5.3 billion.

Immediately following the liquidation, a Royal Commission under Justice Neville Owen was established to determine "the reasons for and the

circumstances surrounding the failure of HIH". The Commission was initially expected to report in June 2002; however, an extension to 28 February 2003 has been granted.

In the period to 30 June 2002, APRA has provided the Commission with substantial documentation. One former and one current employee have given evidence in relation to APRA's analysis of some of HIH's financial reinsurance arrangements. Another employee gave evidence relating to aspects of APRA's new general insurance prudential standards on reinsurance. APRA expects representatives will give further evidence at the Commission in October 2002 in relation to APRA's supervision of HIH. The Commission will then consider future policy issues for general insurance, upon which APRA will be making a detailed submission.

Prior to the liquidation of HIH and establishment of the Royal Commission, APRA appointed an Inspector to investigate the affairs of HIH Insurance and its authorised insurers. The Inspector's report submitted to APRA on 21 September 2001 "revealed a considerable number of issues that contributed to the large losses and ultimate demise of the HIH Group". The Report was made available in evidence to the Royal Commission and the Inspector appeared as a witness.

Although APRA has no further supervisory role over HIH, we continue to liaise with the liquidator and creditors of HIH and other regulatory agencies.

Authorised Deposit-taking Institutions (ADIs)

The quality and timeliness of data received by APRA is a critical factor in ensuring effective supervision. A focal point of supervisory effort for ADIs throughout the year was to improve the timeliness and accuracy of data lodged with APRA – particularly for the reporting of loans, impaired assets and capital – by implementing new returns and a new reporting system.

New outsourcing standard

Reflecting the growing importance of outsourcing in the financial sector, APRA this year developed and released a new prudential standard on outsourcing by ADIs. The new standards ensure that where activity is outsourced, an ADI retains responsibility for ensuring that all risks are managed and monitored, as they would be if the activity were performed in-house.

ADI service level agreements and disaster recovery arrangements were also reviewed by APRA throughout the year. Visits were also undertaken to a number of operators that provide data-processing services to credit unions. No significant prudential issues emerged from this review.

Monitoring commercial lending exposure

Close attention was given to ADIs that had increased significantly their exposure to commercial lending. Some were requested to curtail business-lending activity until adequate credit policies and assessment criteria are in place.

A key concern in relation to the ADI sector during the year was the possible downturn of the credit

cycle, consequently leaving banks under-provisioned. On-site supervision focused on this issue. However, APRA has seen no widespread evidence that this occurred.

Potential systemic issues flowing from a number of corporate collapses in 2001/02 were also an area of potential concern. However, this has not emerged as a major issue for ADIs. Nevertheless, many ADIs are taking steps to improve their relationship assessment and management processes.

Internet banking

Internet banking continues to grow in terms of registered users. To date, there have been no significant reported losses as a result of internet banking fraud. APRA is maintaining a close interest in the security and controls of electronic banking processes implemented by ADIs.

Continued rationalisation

Rationalisation continued throughout the year in the ADI sector, with the transfer of business of a number of building societies and credit unions to larger industry participants and the revocation of some banking authorities as a result of amalgamations or mergers.

APRA issued only one new banking authority in 2001/02, for Mizuho Corporate Bank. The Bank is the result of the merger in Japan of Dai-ichi Kangyo Bank, IBJ Bank and the Fuji Bank.

Superannuation

This year, APRA significantly increased the number of on-site visits to superannuation funds and also increased the intensity of its supervision. APRA's attention was directed towards funds looking to

accept substantial amounts of risk in the pursuit of growth and better returns and those with assets of poor quality or large exposures to a single asset or related counterparty. Some funds were pursued with vigour to improve asset quality and portfolio structure and some enforcement actions were necessary. Throughout the year, APRA continued to encourage the development and implementation of robust investment strategies and business plans, particularly for small to mid-size funds.

Many small superannuation funds wound-up operations during the year. APRA consequently ensured member entitlements were not at risk by the transfer process and correct procedures were followed to convert or wind up funds. APRA recently issued a circular to trustees and other industry participants on the procedures to follow when winding-up a superannuation fund.

APRA is currently reviewing the operations of a number of multiple-employer corporate superannuation funds. The substance of the operations of the multiple-employer funds will be assessed with a view to determining whether the trustees must apply for Approved Trustee status, where the equal representation requirements are not met.

APRA also visited a number of fund managers throughout the year and reviewed procedures for valuing fund units. The findings from this project will be available in the first half of the new financial year.

APRA also developed and released a 'good practice' list for Small APRA Funds (SAFs) – Approved Trustees.

Life Insurers and Friendly Societies

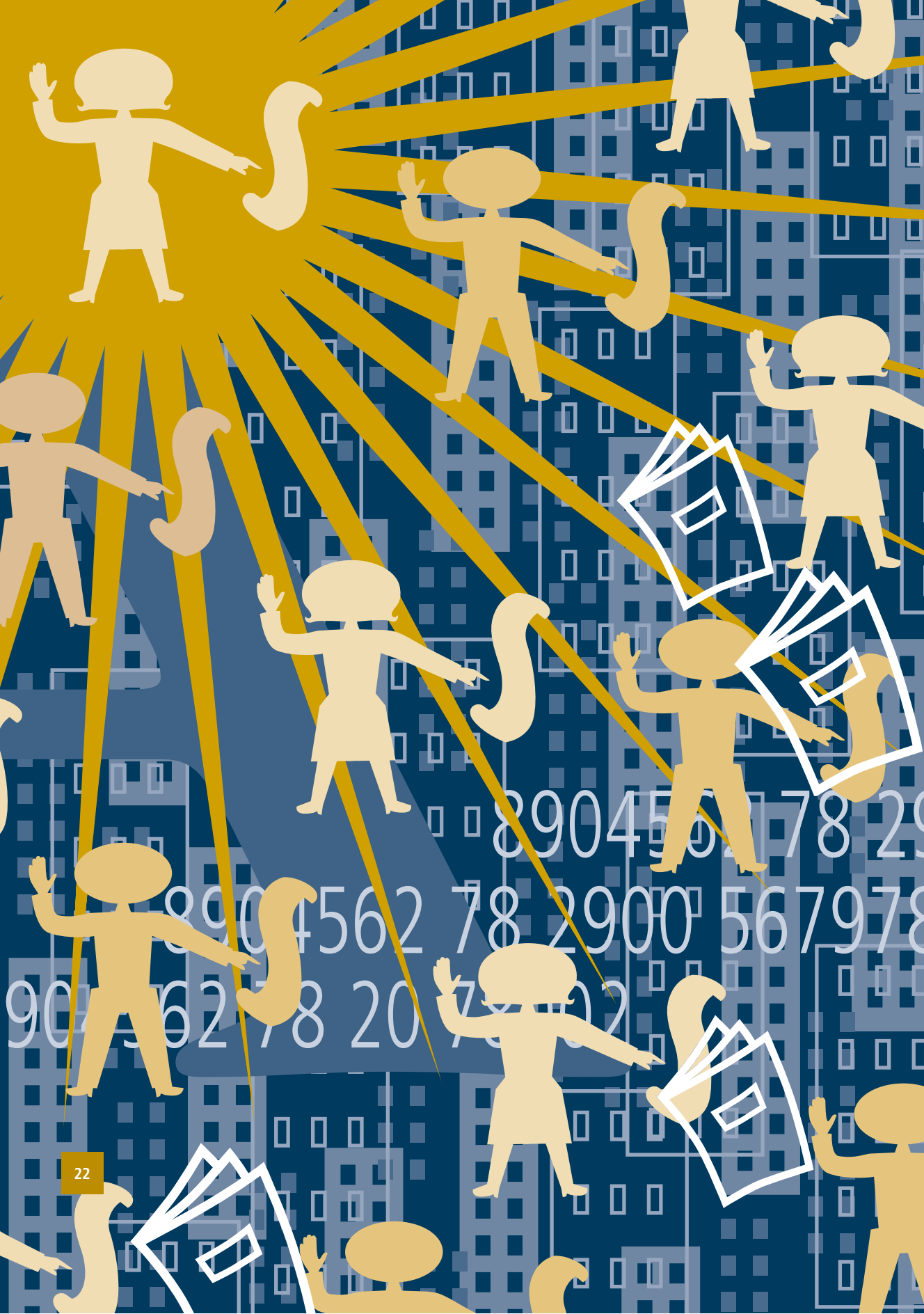
The life insurance sector remained relatively stable during the 2001/02 year with 42 life insurers operating under APRA's supervision.

New actuarial standards were released earlier this year by the Life Insurance Actuarial Standards Board (LIASB) as part of its project for the harmonisation of the actuarial standards for life insurers and friendly societies. These standards commenced on 30 June 2002 and provided for the same solvency, capital adequacy and management capital standards to apply to both life insurers and friendly societies. APRA issued a prudential standard to preserve the minimum capital requirement of \$10 million for life insurers other than friendly societies. Due to the major structural differences between life insurer statutory funds and friendly society benefit funds, different standards for policy liability valuation still apply to life insurers and friendly societies.

Two of the larger friendly societies based in Victoria demutualised this year. While APRA plays a minimal formal role in the demutualisation process, it has and will continue to have an active interest in demutualisations to ensure those members' rights and benefits are protected.

Weaker equity markets late in the 2001/02 year did not pose serious problems because Australian markets did not fall as much as major overseas markets; investment-linked businesses constituted about two-thirds of life insurers' business; and companies met resilience-reserving requirements designed to enable them to survive economic shocks.





Enforcement

When serious problems are identified and significant intervention is required, APRA works closely with institutions and within its legislative powers to achieve an outcome to best protect beneficiaries who include depositors, fund members and policyholders.

The number of institutions requiring intensive management by APRA increased by 16 per cent during the year. The majority comprised superannuation funds in the process of winding up operations.

Institutions supervised by rehabilitation and enforcement during 2001/02

	Number as at 30/6/01	Institutions added during the year	Institutions returned to regional supervision teams	Institutions transferred/ wound-up	Number as at 30/6/02
ADIs	25	5	8	7	15
SIS institutions	35	32	5	19	43
Friendly societies	15	3	1	8	9
General insurers	6	1	1	2	4
SIS institutions winding up	65	168	1	141	91
Other	9	18	1	8	18
TOTAL	155	227	17	185	180

Enforcement actions undertaken during the year

	ADIs		Superannuation		General insurers		Friendly societies		S66 Banking Act *		TOTAL	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Refer to police/ ASIC/ DPP	0	2	8	8	0	2	0	0	1	1	9	13
Refer to ATO	0	0	5	8	0	0	0	0	0	0	5	8
Show cause letter issued	0	2	3	16	11	49	0	0	0	0	14	67
Replace trustees	0	0	4	1	0	0	0	0	0	0	4	1
Follow-up delayed contributions	0	0	11	50	0	0	0	0	0		11	50
Investigator/ liquidator/ inspector appointed	0	1	2	3	8	2	0	0	0	0	10	6
Disqualify auditor/ refer to industry body	0	0	2	0	0	0	0	0	0	0	2	0
Other **	4	9	10	22	9	5	0	3	18	15	41	54
TOTAL	4	14	45	108	28	58	0	3	19	16	96	199

* Companies or individuals suspected of conducting banking business without proper authorisation.

** Includes actions such as notices issued, directions made to institutions and undertakings obtained from institutions.

Commercial Nominees of Australia Limited (CNAL)

During the year, the Inspector appointed by APRA to investigate the dealings between some of the Small APRA Funds (SAFs) and the Enhanced Cash Management Trust – one of the investment vehicles that was under the trusteeship of CNAL – lodged his report with APRA.

The acting trustee of some of these SAFs lodged an application for financial assistance with the Minister for Revenue and Assistant Treasurer, Senator Helen Coonan, under Part 23 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

As required by the legislation, APRA gave advice to the Minister on the application. On 25 June 2002, the Minister made a determination in favour of these SAFs. Affected funds have begun to receive financial assistance. Other applications submitted by the acting trustee and by the trustee of some other SAFs are being assessed.

This is the first time these provisions have been applied and arrangements are being developed to levy the superannuation industry for this financial assistance.

Australian Medical Insurance Ltd (AMIL)

On 27 February 2002, after receiving the necessary approval from the Minister, APRA directed AMIL to raise sufficient capital by 30 June 2002 to meet current minimum requirements under the Insurance Act. This action followed the appointment of an APRA inspector on 22 February 2002 to investigate the insurer's soundness, following a significant

deterioration in AMIL's financial position since its previous balance date of 30 June 2001.

AMIL has at all times been cooperating fully with APRA to help strengthen its financial position in the interests of its policyholders.

On 1 May 2002, the Government agreed to guarantee AMIL and its parent UMP, up to 30 June 2002. At UMP's request, the NSW Supreme Court appointed David Lombe of Deloitte Touche Tomatsu as Provisional Liquidator on 3 May 2002. Mr Lombe will assess the financial strength of the UMP group, and consult with APRA and the Government before advising on its long-term prospects.

Subsequently, the Prime Minister on 31 May 2002 announced a six-month extension of the Government guarantee to UMP/AMIL to 31 December 2002. APRA re-authorised AMIL on 1 July 2002 under the upgraded Insurance Act, subject to a series of stringent conditions.

While the ultimate future of AMIL and its parent is not yet clear, the Government has stated that there will be arrangements in place to ensure continuity of medical indemnity for doctors and medical services to the community regardless of the group's future.



Enforceable undertakings and other actions

APRA's power to accept an enforceable undertaking was introduced to superannuation legislation early in 2001. Enforceable undertakings are an effective tool that enables APRA to better address prudential concerns in a superannuation fund. As the name implies, they can be enforced via application to the Federal Court.

APRA obtained its first enforceable undertaking under the new legislative provisions in December 2001. By means of undertakings from the trustee and a service provider, APRA secured cash payments into a superannuation fund totalling \$2.75 million in place of speculative commercial property developments, and without exposing members to the risk of fire sale losses.

On APRA's application, the South Australian Supreme Court appointed liquidators to the Adelaide accounting firm, Holloway & Co., in September 2001. The appointment followed a successful APRA investigation into avoidance schemes facilitated by the firm, relating to the investment of superannuation funds into in-house assets.

APRA obtained civil penalty orders in the Federal Court against the trustee directors of the Wes Lofts (Aust) Superannuation Fund and related companies. This action was undertaken to recover the assets and safeguard member entitlements. In March 2002, \$632,000 was repaid to the Fund. Three trustee directors were permanently banned from acting as trustees of superannuation funds.

Consumer warning on early release of superannuation benefits

APRA this year issued a consumer warning to companies charging significant fees to secure the early release of superannuation benefits when consumers could undertake the same process themselves.

APRA subsequently commenced a joint investigation with the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO), resulting in a court order prohibiting Gold Coast operators Timothy Barritt and Kelvin Mills from offering services related to superannuation. Investigations into this matter are continuing.

Replacement trustees

Harts Staff Superannuation Pty Ltd was replaced as corporate trustee of the Harts Australia Staff Superannuation Fund. APRA took the action to protect the interests of fund members and worked closely with both ASIC and the ATO in its investigations.

APRA also worked closely with the replacement trustee of the Perth-based Australian Independent Superannuation Fund, to recover fund members'

assets. Fund members were defrauded by one of the Fund's trustee directors over the period from 1994-2000. The Minister made a grant of financial assistance to the Fund to return 90 per cent of all losses, including the costs of the acting trustee. APRA has joined the acting trustee in litigation to recover funds.



Late lodgement of APRA Annual Returns

Late lodgement of annual returns compromises APRA's ability to perform its prudential function of detecting fund weaknesses and protecting the interests of fund members. APRA is committed to using its powers under the SIS Act to prosecute trustees who fail to lodge returns within the prescribed period and without legitimate cause. In 2002, proceedings commenced against trustees of superannuation entities that failed to lodge a 2000/01 annual return with APRA. A total of 13 trustees have been referred to the Director of Public Prosecutions with two trustees successfully charged, as of early August 2002.

Pursuing unauthorised insurers

APRA's enforcement team has actively pursued operators that appear to be conducting insurance business without the required authorisation, thus placing consumers at risk. APRA served notice on 11 'taxi clubs' offering Victorian taxi owners and drivers comprehensive insurance that appeared to be contrary to the Insurance Act. APRA is working closely with these organisations to ensure that they either apply for authorisation under the Insurance Act, restructure as genuine mutual aid societies or exit the industry.

APRA also issued warnings to consumers on the operation of unauthorised foreign insurers in Australia. As a consequence of APRA's investigation of consumer concerns and international cooperation with overseas insurance regulators, APRA issued two specific consumer warnings about the activities of Atlantic and Pacific Insurance Ltd and International Unity Insurance (General) Limited.





Policy development

Ongoing policy development is important to ensure that APRA's prudential standards and policies continue to support the effective supervision of Australia's financial industry.

Throughout the year, APRA worked to introduce major reforms and prudential standards needed to better protect financial consumers.



Strengthening Statutory and Policy Infrastructure

General insurance reform enhances consumer protection

After years of development and industry consultation, the *General Insurance Reform Act 2001* and prudential standards came into effect on 1 July 2002, giving APRA supervisory tools better suited to the complexity of modern general insurance companies.

The reforms delivered fundamental improvements with more consistent and transparent provisions put into place for liability valuation and strengthened capital adequacy requirements. These new capital adequacy standards better align regulatory minimum capital requirements to an individual insurance company's business and risk choices.

The Reform Act also enhances corporate governance and risk management. It is now mandatory for general insurance companies to appoint an APRA-approved actuary, and for the actuary to provide at least annual advice to the insurer's board of directors and to APRA on the valuation of the company's insurance liabilities.

The strengthened prudential regime also governs board composition requirements, encouraging appropriate separation and independence between board members and management. All directors, auditors, actuaries and senior executives are now subject to fitness and propriety requirements. APRA now has the power to remove individuals who fail these standards.

Superannuation reform

APRA made extensive submissions to the Productivity Commission and the Superannuation Working Group during the year.

To each of these Inquiries, APRA presented recommendations to establish a prudential regime to provide Australians with the level of protection they both expect and require.

The two most critical recommendations to ensure a safer Australian superannuation sector are:

- licensing requirements for superannuation trustees; and,
- the power to make prudential standards (or if needed, regulation) that provide APRA with the necessary flexibility to supervise this dynamic and growing industry.

Supervising conglomerate groups with Authorised Deposit-taking Institutions (ADIs)

A discussion paper titled *Capital Adequacy and Exposure Limits for Conglomerate Groups including ADIs* was released in October 2001. After extensive industry consultation, a final framework was developed assessing ADIs at three levels:

- the stand-alone ADI (Level One);
- the consolidated banking group (Level Two); and,
- the conglomerate group at the widest level (Level Three), incorporating Non-Operating Holding Companies (NOHCs) and all non-financial activities.

All ADIs are currently subject to Level One and Level Two requirements, with the new framework recommending some modifications to existing standards. Level Three requirements will only apply to conglomerates prescribed by APRA.

To give effect to these changes to ADI regulation, four draft prudential standards and related guidance notes were released for industry consultation in December 2001. APRA expects the standards to be finalised and effective by December 2002. A three-year transition period will apply in some circumstances as ADIs amend their capital structures and large exposures to account for the new standards. Collectively, these standards will better protect ADIs from any failures within their holding companies and failures by other ADIs.

Basel capital accord

The Basel Committee on Banking Supervision (the Basel Committee) is the de facto global standards-maker for internationally operating banks. The Basel Committee's 1988 guidelines ('Basel 1') are increasingly in need of updating. APRA is part of a substantial international effort generating updated guidelines (known as 'Basel 2').

The Basel 2 accord is likely to feature three key elements:

- new and considerably more sophisticated minimum capital requirements (Pillar 1);
- enhanced supervision of bank capital management processes (Pillar 2); and,
- materially increased bank disclosure requirements (Pillar 3).

APRA supports the overall Basel 2 framework, but intends to exercise its rights to national discretion where appropriate. Specifically:

- ensuring Australia's smaller deposit-takers (including home loan providers) are not competitively disadvantaged. Basel 2's rules contain the possibility that major banks achieve an overly large capital advantage compared to smaller banks, building societies and credit unions. APRA will work to reduce this possibility in the Australian context.
- ensuring key risks not covered under Basel 2 attract appropriate capital and other requirements under the Australian rules. These risks include interest rate mismatches, large exposures and business/strategic risk.
- appropriate treatment for high capital usage items that currently fall outside the Basel 2 guidelines, including owned property (head offices, data centres, etc.) and capitalised intangibles such as software.

During 2001/02, APRA maintained high-level liaison on Basel 2, building a specialist team to facilitate the transfer process. APRA expects the transfer to the new system to commence from late 2003 and to be fully implemented by 2007.



Ensuring best practice outsourcing

APRA released a new prudential standard on outsourcing by ADIs in May 2002, effective 1 July 2002. The standard was released in draft form in November 2001 and was subject to substantial industry consultation.

This standard contains best practice principles to ensure that an ADI's board and management have policies and procedures in place to manage the risks associated with outsourcing. The standard applies to material business activities, defined as those activities having the potential, if disrupted, to impact significantly on the ADI's operations, reputation or profitability.

Financial Sector (Collection of Data) Act 2001

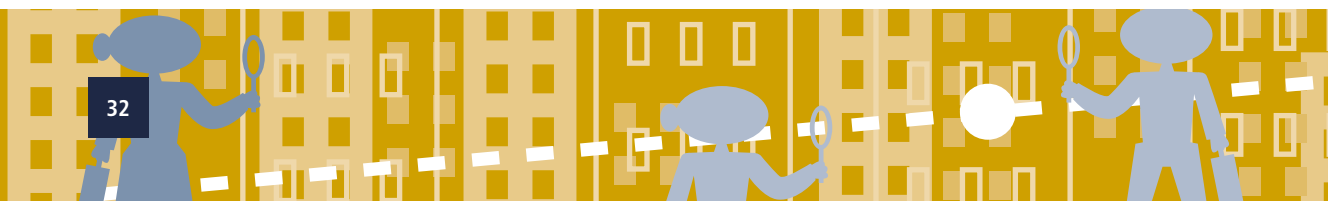
This Act is a unified update i.e. across all APRA's regulated industries, to APRA's powers for data collection. The Act gives APRA consistency of approach in collecting data across industries, the flexibility to revise reporting requirements in line with industry developments and the ability to take action against institutions that fail to comply.

Legislative outlook for 2002/03

Efforts in the upcoming year will focus on improving the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to increase the protection of Australian superannuation fund members. APRA hopes to commence a materially improved regulatory regime in this industry by 1 July 2003.

Work is progressing on updating the *Life Insurance Act*. APRA is reviewing this Act to align it with other legislative regimes. A discussion paper on this topic will be provided in 2002/03 for industry and public consultation.

In general insurance, the focus will be on consolidating the large changes implemented during 2001/02. APRA will also commence considerations of prudential issues at the insurance group level; most current supervision and regulation is based on the general insurance company as a stand-alone entity. APRA expects to make recommendations to Government in this area in mid-2003.



Policy Initiatives in 2002/03

Risk-rating systems

During 2001/02, APRA worked to update and integrate APRA's risk-rating systems. These systems are critical to managing supervisory and enforcement actions.

APRA's Probability and Impact Rating System (PAIRS) completed its design phase in April 2002 and will rollout from 1 October 2002.

APRA intends to continuously improve its risk-modelling capabilities. The PAIRS methodology will be the subject of continuous review and enhancement for the foreseeable future.

Examining APRA's statutory infrastructure

APRA is reviewing its basic statutory infrastructure to identify gaps and overlaps. APRA expects to make a series of recommendations to Government in these areas from October 2002.

Benchmarking APRA's resourcing

APRA is benchmarking personnel and financial resourcing against international and domestic peers. A report to the relevant Ministers and thereafter to the public and industry is expected in early 2003.

Medical Defence Organisations (MDOs)

A safe and sustainable medical indemnity industry is required to protect injured patients and to underpin the medical system. The current industry business model is based on unregulated mutual organisations offering discretionary rather than contractual cover. This model has proven less than

satisfactory, and APRA is working with the Government and MDOs and other entities to determine potentially sustainable approaches.

Compensation schemes

Australia is in the minority among OECD countries not providing depositor and policyholder compensation schemes to cover losses when a deposit-taker or insurance company fails.

APRA cannot guarantee financial institutions will not fail and in fact expects some failures as a statistically rare but eventually certain outcome.

Experience with the HIH Insurance Group, United Medical Protection and some smaller troubled entities demonstrates that Australian Governments in some circumstances make a pragmatic decision to make good losses via ad hoc compensation schemes.

During 2002/03, APRA will release discussion papers to Government on explicit compensation schemes for depositors, policyholders and superannuation fund members. APRA hopes these papers will engender debate and discussion about creating a stronger and more robust system to protect depositors, policyholders and superannuation fund members when financial institutions fail. Any action in this area will require extensive legislation and is clearly a matter for Government. APRA's role is to assist Government in determining the most attractive compensation scheme options.



APRA statistics

Three years of intensive development have created a statistics function that aims for relevant and accurate information to industry, Government and consumers.

Advances in statistical systems have contributed to significant improvements in the timely lodgement of financial information critical to ensuring effective supervision and the early identification of prudential concerns.

APRA today acts as the central financial industry data collector for the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA), reducing industry-reporting burden and saving time and money.



Three years of work and development culminated in the achievement of three key goals this year:

- improvements in compliance with the timely lodgement of returns;
- the completed development of a suite of IT systems (@APRA) to collect, manage, analyse and disseminate financial statistics across all regulated industries; and,
- the integration and modernisation of Authorised Deposit-taking Institution (ADI) statistical collections to bring them into line with current accounting standards.

Improvements in statistical compliance

Timely and accurate statistical returns are vital in ensuring effective prudential supervision and protection of fund members, depositors and policyholders. Timeliness is also important as much of the aggregate data feeds into national statistical reporting.



Superannuation reporting 2000/01

Entity Type	Returns lodged by end 2001		Returns lodged by end 2000	
	Number	Percentage	Number	Percentage
Public offer funds	341	94	286	71
Non-public offer funds	2,112	88	1,681	55
Small APRA funds	6,834	95	1,740	25
Other superannuation entities	476	92	309	53
All funds	9,763	93	4,016	36

Throughout the year, APRA worked with industry to improve reporting compliance and timeliness. In superannuation, compliance has moved from 36 per cent of returns received by the end of 2000 to 93 per cent in the past year. APRA is taking a firmer line with non-complying or non-reporting entities.

APRA launches new software platform – @APRA

During the year, APRA's Statistics Team centralised returns received from regulated industries from 14 prior locations and systems into one centralised location and one modern system.

The launch of APRA's software platform, @APRA, during the year delivered superior functionality and data security to both APRA and regulated institutions. It is now possible to tailor reporting requirements to individual institutions and to perform a wider variety and more in-depth analyses of risk areas, for a particular institution or across an entire industry.

The new system includes enhancements to handle non-financial information on regulated entities, such as organisational structures, office bearers and related parties. In future, this will facilitate analysis of some non-financial risks such as determining the concentration of third-party suppliers, for example, in outsourcing.

This platform is progressively replacing disparate inherited systems. The @APRA system was introduced to building societies and credit unions in September 2001 and to banks in February 2002. Superannuation reporting moved to @APRA for balance dates from 30 June 2002, and for general insurance companies from 30 September 2002. Other entities will be added through 2003.

Integrating and modernising statistical collections

APRA also worked throughout the year to expand data collection to support new supervisory and

legislative requirements. Revised reporting requirements for ADIs were introduced in parallel with the September 2001 and February 2002 @APRA rollouts. The general insurance rollout scheduled for September 2002 included materially enhanced data collection. More returns will be added to the general insurance reporting suite throughout 2003. Material upgrades to superannuation collection are expected from June 2003.

To reduce the reporting requirements of regulated institutions, APRA worked with the RBA and the ABS to integrate collection requirements. APRA is now the centralised financial industry data collector for the ABS and the RBA, delivering considerable cost and time savings to regulated institutions.

Outlook for statistics

APRA's integrated supervision approach is delivering positive results. The cost of sophisticated technology and high-quality staff has been amortised across four industries rather than one, with each industry receiving a better statistical product.

Efforts over the next financial year will focus on further improving the new reporting systems.

From 2004, APRA will have one of the world's leading regulatory statistics units, enabling more proactive and effective supervision.





Cooperation and liaison

APRA maintains strong relations with regulators at both a national and international level and assumes a leading role in shaping important reforms, which will significantly impact the stability and efficiency of Australia's financial system in the long term.

Regular liaison with relevant industry bodies is also vital in protecting Australian depositors, policyholders and superannuation fund members.

Australian agreements and cooperation

Close contact with industry bodies and associations is important to ensure that APRA has the information it needs to identify prudential concerns and to develop standards and reforms that reflect the dynamic nature of Australia's financial industry.

Throughout the year, APRA held regular high-level liaison meetings with industry bodies and maintained its active membership of the Council of Financial Regulators, consisting of the Reserve Bank of Australia (RBA), the Australian Securities and Investments Commission (ASIC) and APRA. Regular high-level liaison meetings were also held with Treasury.

APRA and the Australian Taxation Office (ATO) continued to consult on the detail of interpretative and guidance material issued jointly or separately in relation to areas of legislation administered by both regulators.

During the year, APRA entered a formal agreement with the Director of Public Prosecutions (DPP) for more ready and effective access. The agreement assisted APRA in its pursuit of superannuation trustees for failure to lodge annual returns and also for the prosecution of unauthorised entities offering banking or insurance services in Australia.

Cooperation with ASIC

APRA worked with ASIC throughout the year via operational-level liaison groups. The focus of these groups continues to be areas of overlapping interest such as enforcement, compliance, financial soundness and disclosure in relation to supervised industries and individual entities operating within those industries. APRA and ASIC aim to share the relevant findings of reviews and surveillance to

assist each other in carrying out supervisory functions.

Following 11 September 2001, information exchanges took place in relation to specific institutions that appeared to be significantly affected. A number of joint visits to financial institutions were also conducted in 2001 as part of an APRA review of unit-pricing in the superannuation industry.

Joint action was also taken regarding members gaining illegal access to superannuation. The implementation of the *Financial Services Reform Act 2001* has also seen the need for liaison in other areas, such as the regulation of unauthorised foreign insurers and updates to superannuation audit requirements.

A joint task force was established during the year between APRA and ASIC to closely coordinate enforcement action on one particular matter, which included the sharing of staff resources. In July 2002, a second joint enforcement workshop was held with frontline supervisors from both organisations nationwide.

An enforcement protocol, which provides operational procedures for referral of existing or anticipated enforcement matters between APRA and ASIC, was signed in September 2001 and greatly assisted in the referral of a number of cases.

In 2002, both agencies will continue to improve information sharing and coordination of regulatory actions. The level of interaction between APRA and ASIC regarding financial sector institutions is expected to increase.

International cooperation

APRA strives to ensure that Australia's prudential standards are consistent with international best practice. It is in the interests of Australian financial consumers that APRA plays a role in the development of international standards. Building lines of communication with regulators in other jurisdictions also provides greater capacity to respond to problem institutions. With these objectives in mind, APRA has been active during 2001 in a range of international groups and forums:

- **International Association of Insurance Supervisors (IAIS)** – APRA is represented on the Executive Committee of the IAIS (an APRA executive is currently Vice Chair of the group) and, during 2001, provided the Chair of the IAIS Solvency Sub-Committee. The latter is mandated to develop international guidance on the establishment of solvency standards for life and general insurance companies. APRA is also represented on the Reinsurance Sub-Committee, the Accounting Sub-Committee and the Taskforce on Revisions to the Insurance Core Principles and Methodology.
- **Basel Committee on Banking Supervision** – APRA is represented on and provides input to a range of groups established under the auspices of the Basel Committee. These include the Core Principles Liaison Group (CPLG), which is the main forum for consultation between the Basel Committee and non-member countries.

APRA plays an active role on the CPLG Capital Task Force, which provides advice and

guidance on the development of the new Basel Capital Accord.

- APRA was a member of a task force established by the Financial Stability Forum and the Basel Committee to examine the means by which supervisors can effectively and efficiently deal with weak banks. The task force's report was released in April 2001 and has been adopted by many governments around the world.

APRA is represented on the Basel Committee's Electronic Banking Group, which examines the prudential issues arising from electronic banking activities and, in particular, develops guidance for supervisors in dealing with the specific security and cross-border issues that e-banking presents.

- **Joint Forum** – the Joint Forum was established by the IAIS, the Basel Committee and the International Organisation of Securities Commission (IOSCO) to examine cross-sector issues. The group, of which APRA is a member, produced two major discussion papers during 2001: one on the similarities and differences in the Core Principles for the respective sectors; and, another that examined the different approaches to risk assessment and capital adequacy adopted within the banking, insurance and securities industries.
- **International Network of Pensions Regulators and Supervisors (INPRS)** – During 2001, the INPRS was established. Given APRA's responsibilities to Australia's well-developed superannuation sector, APRA has taken considerable interest in the establishment of the INPRS, and is a member of its technical committee.



- **Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)** – APRA and the RBA are members of the EMEAP Working Group on Banking Supervision.
- **OECD Insurance Committee** – APRA represents Australia on the OECD Insurance Committee and some related working parties. Work focused on governance issues and pension fund regulation during 2001. After the events of 11 September, the Committee has turned much of its attention to examining terrorism risks.
- **Asia-Pacific Economic Cooperation (APEC) Financial Regulators' Training Initiative** – APRA and ASIC have been active supporters of the Initiative, with APRA hosting a course for APEC banking supervisors on corporate governance and internal controls. APRA also provided significant assistance to the bi-annual training program and the annual symposium, held in Melbourne and Beijing respectively, on 'Managing Regulatory Change in Life Insurance and Pensions'. The objective is to ensure a strong transfer of knowledge to countries within the region that are seeking to upgrade their regulatory systems, by drawing on the skills and expertise of supervisors from elsewhere in the world.
- **South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors** – APRA is a member of this group that brings together banking supervisors from the region. The Forum has proven a useful means of sharing expertise.

Information sharing

APRA continued to maintain information sharing and liaison with overseas institutions and regulators. Input from other regulators is often useful in solving Australian regulatory issues and assists APRA to better understand the risks that Australian institutions might face overseas.

Particularly in Asia and the Pacific, APRA wishes to assist financial regulators as they build stronger financial systems in the region. These stronger financial systems in turn support Australia's long-term interest by ensuring regional economic and political stability.

- **Assistance to the Bank of Thailand** – In February 2002, a two and a half-year technical assistance program provided by APRA to the Bank of Thailand was concluded. The program, funded by AusAid, was aimed at enhancing the Bank's approach to risk-based supervision. Assistance was provided in the form of four six-month placements of Bank of Thailand staff with APRA, two study tours by the Bank's senior management for discussions with all areas of APRA and delivery of three market risk-training seminars in Thailand by APRA staff.
- **Assistance to Papua New Guinea** – APRA provided technical assistance and advice to Papua New Guinea in relation to the reform of their superannuation and life insurance supervisory framework.



International conferences

APRA executives also continued to maintain active involvement in overseas conferences.

- APRA represented Australia at committee meetings of the **International Actuarial Association**. The committee discussed international insurance regulation, the development of the international insurance accounting standards and complementary international actuarial standards.
- the Executive General Manager of APRA's Diversified Institutions Division presented at the **International Congress of Actuaries**, which is held every four years. The Congress was attended by about 1,200 actuaries from 57 countries and covered a range of insurance, investment, pension and professional issues.
- APRA also provided input and training into a conference and course on 'Financial Sector Regulation and Supervision in Pacific Island Countries'. Held in Singapore, the high-level conference was designed to increase understanding of the importance of financial sector regulation and supervision among senior government and central bank officials to promote the stability and integrity of financial sectors in Pacific Island countries.

APRA Call Centre

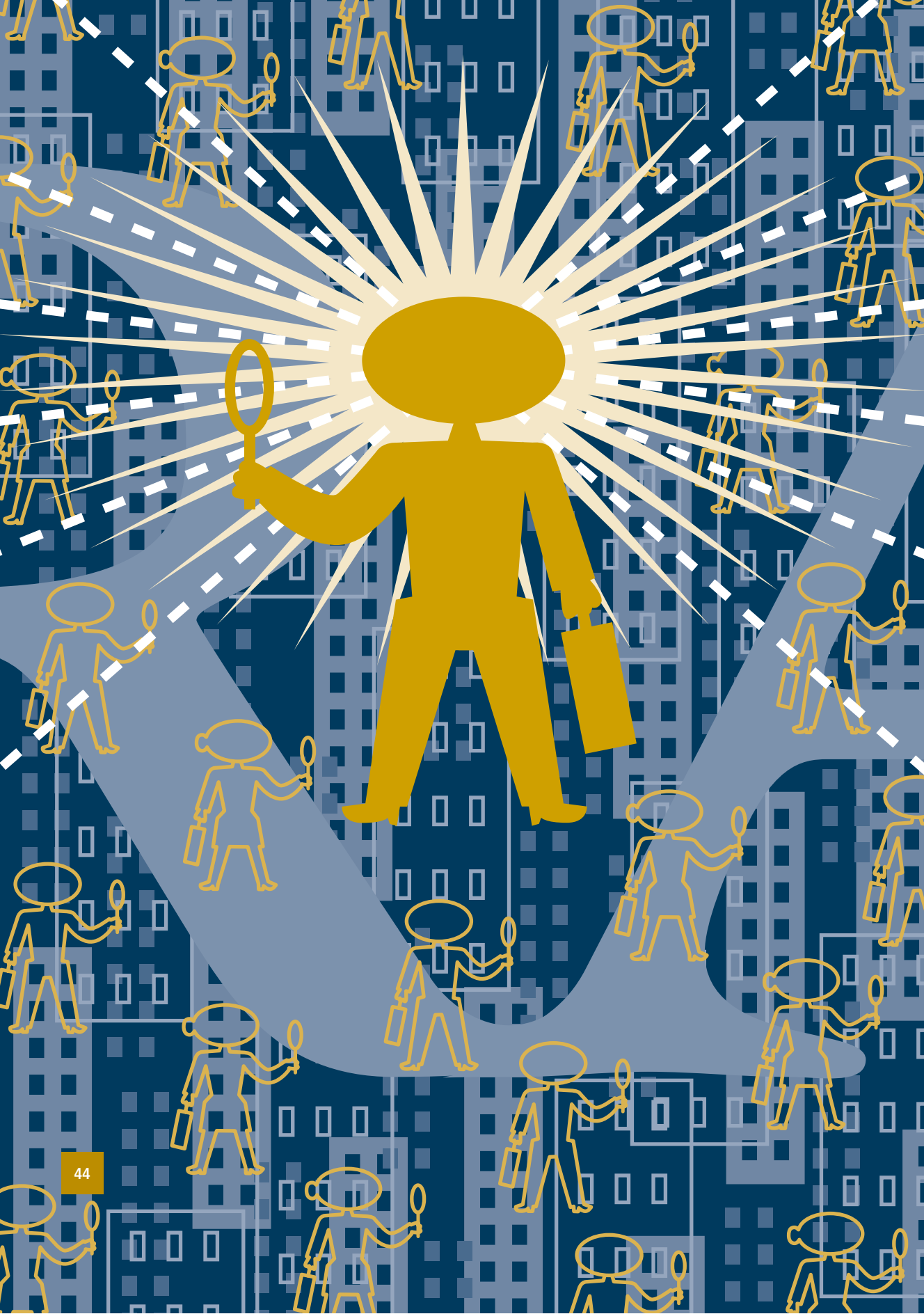
APRA's Call Centre continued to provide a prompt and efficient response to inquiries from superannuation fund members, policyholders and depositors as well as from the full range of institutions under APRA's watch.

The Canberra-based Call Centre supports the Government's broader retirement income policies by providing information to the public and by assessing applications for the early release of preserved superannuation benefits on grounds specified in legislation. Call Centre staff also provide an important support for APRA's core supervisory functions by identifying issues raised by callers, which may indicate increased prudential risk in particular institutions.

The Call Centre maintained world's best practice in answering 90 per cent of the 140,000 calls within 10 seconds. The team also achieved its benchmark of a 90 per cent response rate within two days of receipt of the 10,817 applications for the early release of superannuation.

Following feedback from customer focus groups conducted in late 2001, APRA also refined and improved application forms for the Early Release of Benefits. Feedback also indicated that ease of access to our contact centre is greatly appreciated by customers experiencing financial difficulty.





Corporate governance

Board responsibilities

The responsibilities of APRA Board members stem from statute and common law. The most relevant statutes are the *Australian Prudential Regulation Authority Act 1998* (APRA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

APRA's purpose, as set out in section 8 of the APRA Act, is to regulate bodies in the Australian financial sector in accordance with applicable laws and to develop the policy to be applied in performing that regulatory role. In doing this, APRA must balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality.

The Board's functions, as set out in section 17 of the APRA Act, are:

- to determine APRA's policies (including goals, priorities, strategies and administrative policies);
- to ensure that APRA performs its functions properly, efficiently and effectively; and,
- to ensure that APRA's operations are conducted having regard to its purpose as stated in section 8.

In addition, other sections of the APRA Act refer to the obligations of the Board to inform the Government of APRA's policies (section 12) and to hold meetings.

The Treasurer appoints Board members, other than representative members, for a term of up to five years. Two representative members are appointed by the Governor of the Reserve Bank of Australia (RBA) and one by the Chairman of the Australian Securities and Investments Commission (ASIC).

Under the APRA Act, the Board may delegate some of its functions to the Chief Executive Officer, to a Board member or to a member of staff.

Risk assessment and internal audit

The Risk Assessment and Internal Audit Unit plays an important role in APRA's corporate governance, assurance and compliance framework. The Unit assists the Board and senior management to identify and understand risks facing APRA by providing the Board's Risk Management and Audit Committee with a summary of high and significant risks at the organisational level. Risk management strategies to mitigate these risks are also documented as part of the organisation's risk profile that is re-assessed every six months.

Risk assessment and internal audit staff utilise an ongoing process consistent with the Australian/New Zealand standard on risk management (AS/NZS 4360:1999). Regular risk assessment and audit reports to senior management and the Board's Risk Management and Audit Committee include risk identification and analysis and associated risk management strategies and action plans. A program of independent internal audits approved by the Chief Executive Officer and endorsed by the Board's Risk Management and Audit Committee is conducted each year, providing ongoing assurance regarding the organisation's key areas of internal control. This program includes reviews of internal and external compliance.

Fraud risk management is an ongoing focus within APRA with fraud control reviews and training included in the 2002/03 Strategic Internal Audit Plan. During the year, Risk Assessment and Audit staff conducted an internal fraud risk assessment and updated APRA's fraud control plan.

Members' attendance at meetings

	Board meetings		Risk Management and Audit Committee (C)	
	(a)	(b)	(a)	(b)
Dr Jeffrey Carmichael	11	11	5	4
Mr Graeme Thompson	11	11	5	5
Dr David Knox	11	10	5	5
Dr John Laker	11	11	-	-
Mr Ian Macfarlane ¹	11	8	-	-
Mr Don Mercer	11	10	5	5
Mrs Marian Micalizzi	11	11	5	4
Mr Rodney Atfield ²	8	8	3	3
Prof Berna Collier ³	6	6	-	-

(a) number of meetings held while a member

(b) number of meetings attended

(c) APRA's external auditor, the Auditor General, has a representative who attends these meetings by invitation.

¹ Mr Ian Macfarlane's alternate, Mr Glenn Stevens, attended the 16 May 2002 meeting.

² Mr Rodney Atfield was appointed to the Board on 1 September 2001.

³ Professor Berna Collier was appointed to the Board on 6 November 2001.

Board members

Dr Jeffrey Carmichael

AO, Chair (non-executive)

BCom (Hons 1), MCom (Hons) (UNSW), MA, PhD (Princeton), AIBF, AIFS

Dr Carmichael was a member of the Financial System Inquiry and is now a financial consultant and company director. He brings to his chairmanship of APRA considerable experience and knowledge of the financial system from his 20 years with the Reserve Bank of Australia (RBA); from his extensive academic career, where he specialised in the field of banking and finance; and, more directly, in prudentially regulating financial institutions. Dr Carmichael has previously held positions as Chair of the Australian Financial Institutions Commission (AFIC) and Chair of the Queensland Office of Financial Supervision. Both institutions were involved in the supervision of building societies, credit unions and friendly societies, which were transferred to APRA's jurisdiction on 1 July 1999.

Mr Graeme Thompson

Chief Executive Officer (executive)

BEcon (Hons) (Syd)

Mr Thompson is the Chief Executive Officer of APRA. From 1993 until his present appointment, he was Deputy Governor of the RBA with responsibilities including banking supervision, surveillance of the financial system as a whole and the payments system. From 1995 to 1998, he was also Chair of the Australian Payments Clearing Association Ltd. Mr Thompson previously held other senior positions in the RBA. He is currently APRA's representative member on the RBA's Payments System Board. He is also Chair of the boards of Note Printing Australia Ltd and Securrency Pty Ltd.

Dr David Knox

(non-executive)

BA, PhD (Macquarie), FIA, FIAA

Dr Knox is a Director with PricewaterhouseCoopers Actuarial. From 1992 to 1999, he was the Foundation Professor of Actuarial Studies at the University of Melbourne. From 1979 to 1992, he was a lecturer and then Associate Professor of Macquarie University. Prior to his two decades in academia, he worked for National Mutual Life. Dr Knox has acted as a consultant to a range of financial organisations, in both the private and public sectors, specialising in the financial services area. He was President of the Institute of Actuaries of Australia in 2000 and was named Actuary of the Year in 1996. Dr Knox is a member of APRA's Risk Management and Audit Committee.

Dr John Laker

(non-executive, ex officio)

BEcon (Hons 1) (Syd), MSc PhD (London)

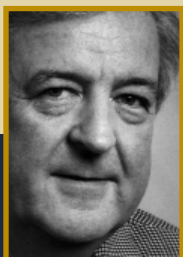
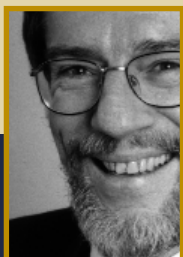
Dr Laker was appointed Assistant Governor (Financial System) of the RBA in March 1998. He worked in the Commonwealth Treasury and International Monetary Fund before joining the RBA's International Department in 1982. Dr Laker held senior positions in the economic, bank supervision and international areas before becoming the RBA's Chief Representative in Europe, based in London, from 1991 to 1993. Prior to his current appointment, he was Assistant Governor (Corporate Services). Dr Laker is also Deputy Chair of the Payments System Board of the RBA and a RBA representative on the Council of Financial Regulators.

Mr Ian Macfarlane

(non-executive, ex officio)

BEcon (Hons), MEcon (Monash), FASSA

Mr Macfarlane is Governor and Chairman of the Board of the RBA. He is also Chairman of the RBA's Payments System Board and the Council of



Financial Regulators, and represents Australia on the Financial Stability Forum, an international group of eleven countries set up by the G7 to coordinate policies to promote financial stability.

Mr Don Mercer
(non-executive)

BSc (Hons 1) (St Andrews), Dip Pub Admin, MA (Econ) (Manchester)

Mr Mercer is Chancellor of RMIT University, Chair of Orica Ltd and Chair of Australia Pacific Airports Corporation. He is a Director of the CSIRO, Chair of Orchestra Victoria, and Chair of the Opera Australia Capital Fund. After graduating, he spent 19 years with Shell International Petroleum Co. Ltd, with postings in the United Kingdom, the Netherlands, Canada, Indonesia and Australia. Mr Mercer joined ANZ in March 1984 as General Manager, Strategic Planning and Economics, and in 1988 was appointed Chief General Manager, Australian Retail Services. In June 1992, he was named Group Managing Director and Chief Executive Officer, a position he held until he retired on 30 September 1997. He was President of the Victorian Institute of Company Directors from 1994 to 1996, and is currently a national Vice-President of AICD. Mr Mercer was President of the Australian Coalition of Service Industries from 1994 to 1998. He is the Chair of APRA's Risk Management and Audit Committee.

Mrs Marian Micalizzi
(non-executive)

BBus (QUT), FCA, MAICD

Mrs Micalizzi's expertise is in financial advisory areas and is a current member of several advisory boards and panels including the Takeovers Panel, the Corporations and Markets Advisory Committee as well as the boards of Enertrade and Queensland Investment Corporation. Mrs Micalizzi is also a member of APRA's Risk Management and Audit Committee. She was a director of the Queensland

Office of Financial Supervision from 1992 to August 1999 and the Australian Financial Institutions Commission from 1996 until October 1999, which were responsible for the regulation and supervision of non-bank financial institutions. Mrs Micalizzi is a former partner of PricewaterhouseCoopers' Financial Advisory Services division, having previously been admitted as a partner of a predecessor firm in 1986.

Mr Rod Atfield
(non-executive)

Fellow of the Institute of Actuaries (London)

Mr Atfield was appointed to the Board as an independent member for the term of five years from 1 September 2001. He was previously Managing Director of the Mercantile Mutual Group, with extensive experience in the general insurance industry. In addition to Mr Atfield's more than 40 years experience in the insurance field, he has also made a significant contribution to the industry and professional associations of which he has been a member during his career. Mr Atfield is a former director of the Insurance Council of Australia, the Life Insurance Federation of Australia and a past President of the Institute of Actuaries of Australia.

Professor Berna Collier
(non-executive, ex officio)

BA, LLB (Hons) (Qld), LLM (Melb)

Berna Collier is a Commissioner of the Australian Securities and Investments Commission. She is currently on leave from the Queensland University of Technology, where she holds the Clayton Utz Chair in Commercial Law. Professor Collier has written widely in relation to aspects of insolvency and commercial law and medico-legal practice. From 1999 to 2000, she chaired the Federal Government Taskforce on Industry Self-Regulation. Professor Collier has acted as a consultant for a number of legal firms and is also a member of the Advisory Board of Axiss Australia.



Mr Don Mercer Mrs Marian Micalizzi Mr Rod Atfield Professor Berna Collier



The cost of prudential supervision and financial performance

APRA's income derives mostly from annual levies on regulated financial institutions. Its expenditure is devoted, directly or indirectly, to prudential supervision, regulation and enforcement activities in relation to those entities.



APRA's expenditure

APRA's total operating expenditure in 2001/02 was \$59.2 million, compared to the modified budget of \$59.9 million agreed at Additional Estimates. Included within the costs are \$2.6 million of costs incurred in relation to the HIH Royal Commission. The costs are fully-offset by recoveries from insurance and an additional appropriation from the Commonwealth that are included within revenue¹.

The following table shows the trend in net operating expenditure on prudential regulation, and APRA staff in Australia engaged, directly or indirectly, on this over recent years. The numbers have been adjusted for comparison.

	\$ million	Staff at 30 June
1997/98 (estimate)	56.5	559
1998/99 (estimate)	59.9	482
1999/00	52.8	397
2000/01	52.5	396
2001/02	55.8	407 ²
2002/03 (budgeted)	60.7	448

These figures³ show that, following APRA's establishment, the running costs of prudential supervision fell. This was achieved through a combination of integration savings, shared facilities, more flexible work practices and investment in infrastructure. However, from 2001/02, additional resources were approved to support increased intensity of prudential supervision, policy reform work and communication programs. This trend will continue into 2002/03.

In the section of this Report describing APRA's business plan, six Key Result Areas (KRAs) are identified. Three of these KRAs align with the APRA outputs of supervision, policy and prudential advice, which are described in the Budget papers. The remaining three KRAs are staff, infrastructure and accountability and they align with administrative support and corporate governance. The estimated percentage distribution of APRA's operating expenditure across its main activities in 2001/02 is shown below. The allocation to outputs is shown in note 23 to the Annual Financial Statements.

• Supervision, rehabilitation and enforcement	59 per cent
• Development of prudential policies and standards	8 per cent
• Prudential advice	4 per cent
• Administrative support and corporate governance	29 per cent

¹ The original appropriation sought for the HIH Royal Commission was \$4 million, when the position and extent of coverage regarding insurance was unclear. Subsequently, a high proportion of costs is being recovered through insurance and therefore \$2.5 million of the appropriation has been returned.

² These numbers are Average Staffing Level

³ The figures are operational expenditures that have been normalised for comparison and exclude establishment costs. The 1997/98 figures are estimates for the aggregate costs of predecessor organisations including the State-based regulators. The figures have been adjusted to exclude the Australian Government Actuary, activities transferred to the Australian Taxation Office (ATO) and the consumer protection functions within former agencies. The figures have also been adjusted for the netting of costs with associated revenues i.e. subleases on properties.

APRA's income

APRA is funded primarily from levies collected from regulated financial institutions, with a contribution from interest on funds invested, fees for service and miscellaneous cost offsets. Included within revenue in 2001/02 is insurance recovery of \$2.6 million for costs incurred in representing APRA before the HIH Royal Commission. In addition, an appropriation of \$1.5 million from the Government has been provided to assist with costs that are not covered by insurance. In the year, \$0.5 million has been recognised as revenue with the balance carried forward to offset anticipated future costs.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the main financial industry sectors. Prior to the beginning of the year, the Treasurer announced the levy determinations with a rate to be applied on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies that are levied a flat rate. The levies collected by APRA also cover some costs of the Australian Securities and Investments Commission (ASIC) and the ATO. The process includes detailed consultation with main industry groups and with Treasury. Levies are based on industry sectors.

As noted in previous annual reports, APRA's organisational structure, with its integrated supervisory approach, does not lend itself to an exact allocation of spending by industry on this basis. Much of APRA's policy development work and frontline supervision cuts across traditional, and increasingly blurred, industry boundaries. The Government has foreshadowed a review of APRA's levy arrangements before the 2003/04 income year.

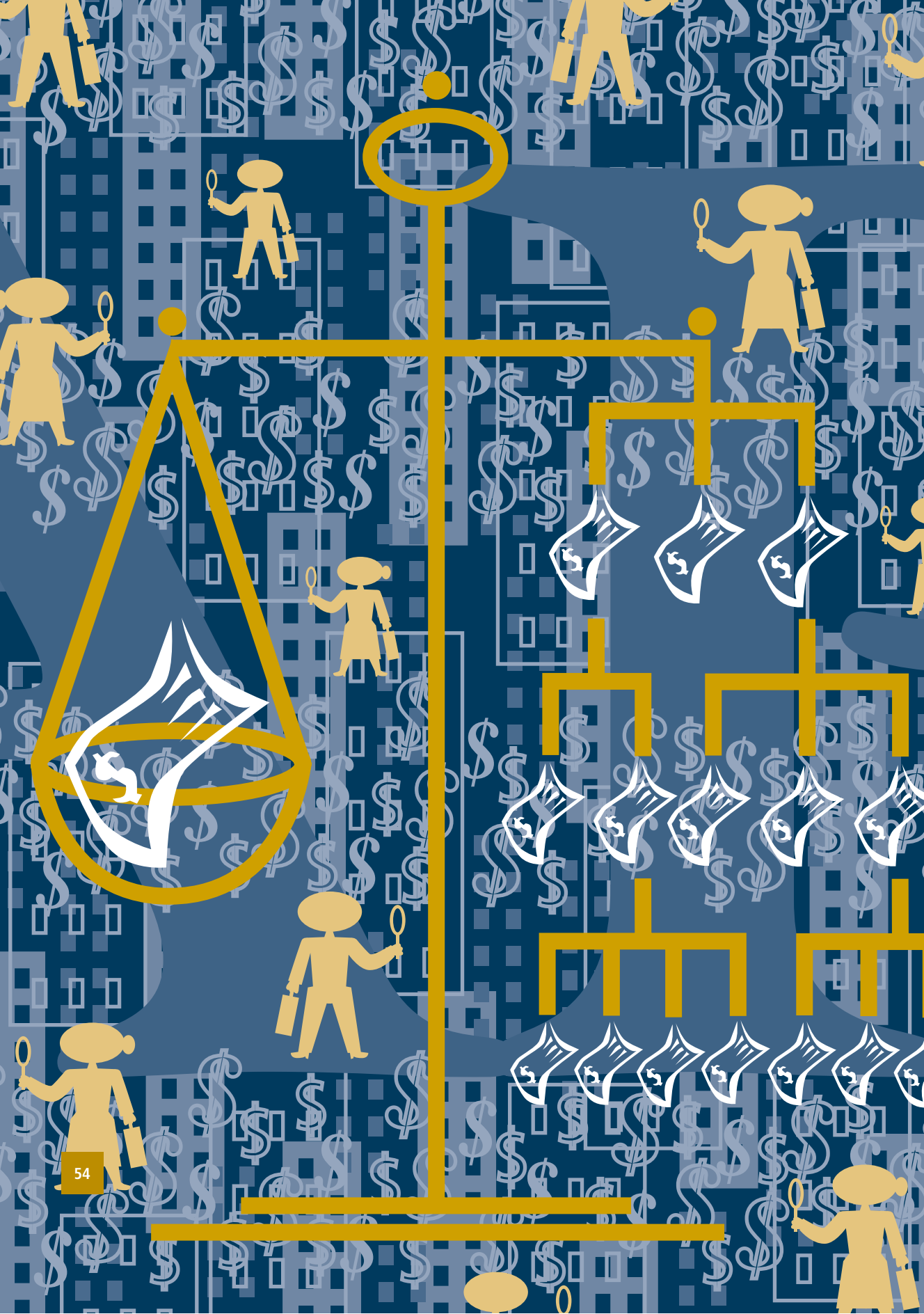
The total net levies collected in 2001/02 were \$69.2 million, compared to the plan of \$67.2 million. The surplus will be used to build reserves to an adequate level.

Reserves

APRA made a surplus of revenue over expenditure of \$2.96 million, taking the accumulated surpluses to \$3.5 million. This is within the target of 5 to 10 per cent of total levies or in the range of \$2.7 to \$5.4 million set by the Board.

APRA has adopted accounting policies that matched levy income to the cost of supervision during the levy year on an accrual basis. Last financial year, the report of the Australian National Audit Office (ANAO) qualified the financial statements on the basis that, in its opinion, section 50 of the *Australian Prudential Regulation Act 1998* (APRA Act) entitled APRA to recognise only the cash collected on levies. Subsequently, changes have been made to section 50 of the APRA Act. This permits levies invoiced, but unpaid at year-end, to be recognised as revenue. Consequently, there is no longer a difference of opinion on the timing with which APRA's revenue is recognised.





Financial report

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

Statement by Board Members

In our opinion, the attached financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.



Dr Jeffrey Carmichael

Chair of the Board

15 August 2002



Graeme Thompson

Chief Executive Officer

15 August 2002

<i>Statement by Board Members</i>	55	<i>Schedule of Commitments</i>	59
<i>Statement of Financial Performance</i>	56	<i>Schedule of Contingencies</i>	60
<i>Statement of Financial Position</i>	57	<i>Notes to and forming part of the Financial Statements</i>	61
<i>Statement of Cash Flows</i>	58	<i>Independent Audit Report</i>	97



STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2002

	Notes	2002 \$'000	2001 \$'000
<i>Revenues from ordinary activities</i>			
Revenues from government	5A	57,196	49,367
Sales of goods and services	5B	1,331	1,265
Interest	5C	1,033	1,439
Proceeds from disposal of assets	5D	-	4
Insurance Recoveries	5E	2,636	-
Total revenues from ordinary activities		62,196	52,075
<i>Expenses from ordinary activities</i>			
Employees	6A	34,393	33,347
Suppliers	6B	20,297	15,523
Depreciation and amortisation	6C	2,831	2,833
Asset threshold change	6D	-	649
Write-down of assets	6E	1,602	839
Disposals of assets	6F	108	22
Total expenses from ordinary activities		59,231	53,213
Borrowing cost expenses	7	-	2
<i>Net operating surplus (deficit) from ordinary activities</i>	13	2,965	(1,140)
Net credit to asset revaluation reserve	13	-	558
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity		-	558
Total changes in equity other than those resulting from transactions with owners as owners		2,965	(582)

The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2002

	Notes	2002 \$'000	2001 \$'000
ASSETS			
<i>Financial assets</i>			
Cash	8A	10,416	13,796
Receivables	8B	1,924	1,529
Accrued revenues	8C	135	522
Total financial assets		12,475	15,847
<i>Non-financial assets</i>			
Infrastructure, plant and equipment	9A, C	6,108	6,568
Intangibles	9B, C	6,886	7,311
Other	9D	330	134
Total non-financial assets		13,324	14,013
Total assets		25,799	29,860
LIABILITIES			
<i>Interest bearing liabilities</i>			
Leases	10	-	24
Total interest bearing liabilities		-	24
<i>Payables</i>			
Suppliers	11A	2,930	5,120
Revenue in advance	11B	976	51
Loans	11C	-	5,439
Total payables		3,906	10,610
<i>Provisions</i>			
Employees	12A	10,463	10,110
Other	12B	2,175	2,751
Total provisions		12,638	12,861
Total liabilities		16,544	23,495
EQUITY			
Capital	13	5,255	5,255
Reserves	13	483	558
Accumulated surpluses	13	3,517	552
Total equity		9,255	6,365
Current assets		12,805	15,981
Non-current assets		12,994	13,879
Total assets		25,799	29,860
Current liabilities		10,483	17,254
Non-current liabilities		6,061	6,241
Total liabilities		16,544	23,495

The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2002

	Notes	2002 \$'000	2001 \$'000
OPERATING ACTIVITIES			
<i>Cash received</i>			
Appropriations		58,365	51,591
Sales of goods and services		2,731	650
Interest		1,057	1,362
GST recovered from ATO		2,806	1,566
Other		846	760
Total cash received		65,805	55,929
<i>Cash used</i>			
Employees		(38,095)	(34,256)
Suppliers		(20,927)	(18,170)
Borrowing costs		-	(2)
Other		-	(123)
Total cash used		(59,022)	(52,551)
Net cash from operating activities	14	6,783	3,378
INVESTING ACTIVITIES			
<i>Cash received</i>			
Proceeds from sale of plant and equipment		-	4
Total cash received		-	4
<i>Cash used</i>			
Purchase of plant and equipment		(3,044)	(2,460)
Purchase of intangibles		(1,680)	(5,261)
Total cash used		(4,724)	(7,721)
Net cash used by investing activities		(4,724)	(7,717)
FINANCING ACTIVITIES			
<i>Cash received</i>			
Proceeds from debt		-	-
Other		-	-
Total cash received		-	-
<i>Cash used</i>			
Repayments of debt		(5,439)	(5,439)
Total cash used		(5,439)	(5,439)
Net cash used by financing activities		(5,439)	(5,439)
<i>Net decrease in cash held</i>			
Cash at the beginning of the reporting period		13,796	23,574
Cash at the end of the reporting period	8A	10,416	13,796

SCHEDULE OF COMMITMENTS

as at 30 June 2002

	2002 \$'000	2001 \$'000
BY TYPE^{1,2}		
COMMITMENTS PAYABLE		
Operating leases ³	31,833	33,846
Total commitments payable	31,833	33,846
COMMITMENTS RECEIVABLE		
Operating subleases ⁴	(6,378)	(7,217)
Total commitments receivable	(6,378)	(7,217)
Net commitments	25,455	26,629
BY MATURITY		
Net commitments		
One year or less	4,484	3,727
From one to five years	17,095	14,986
Over five years	3,876	7,916
Total net commitments	25,455	26,629

The above schedule should be read in conjunction with the accompanying notes.

¹ Commitments are GST inclusive where relevant.

² APRA has no capital commitments.

³ Operating leases are effectively non-cancellable and comprise:

- leases for office accommodation;
- photocopier lease and copy charges; and
- leases for motor vehicles.

⁴ Operating subleases commitments receivable comprise amounts receivable from other bodies for subleasing of office accommodation.

SCHEDULE OF CONTINGENCIES

as at 30 June 2002

	2002 \$'000	2001 \$'000
CONTINGENT LOSSES		
Claims for damages/costs	-	60
Total contingent losses	-	60

The claim for costs at 30 June 2002, represents APRA's estimate of costs payable should a matter awaiting decision be determined in the defendant's favour.

The amount allowed for contingent losses at 30 June 2001 was for estimated legal costs payable in a legal matter that had not been determined. That matter has since been resolved.

Estimated costs incurred during the year associated with other legal action, currently under way, are reflected in the Statement of Financial Performance.

SCHEDULE OF UNQUANTIFIABLE CONTINGENCIES

At 30 June 2002, APRA had a number of legal matters outstanding that APRA is defending. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims.

Estimated costs incurred during the year associated with other legal action, currently under way, are reflected in the Statement of Financial Performance.

The above schedules should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note	Description
1	<i>Summary of Significant Accounting Policies</i>
2	<i>Economic Dependency</i>
3	<i>Events Occurring After Reporting Date</i>
4	<i>Financial Institutions Supervisory Levies</i>
5	<i>Operating Revenues</i>
6	<i>Operating Expenses</i>
7	<i>Borrowing Cost Expenses</i>
8	<i>Financial Assets</i>
9	<i>Non-Financial Assets</i>
10	<i>Interest Bearing Liabilities</i>
11	<i>Payables</i>
12	<i>Provisions</i>
13	<i>Equity</i>
14	<i>Cash Flow Reconciliation</i>
15	<i>Remuneration of Board Members</i>
16	<i>Related Party Disclosures</i>
17	<i>Remuneration of Officers</i>
18	<i>Remuneration of Auditors</i>
19	<i>Average Staffing Levels</i>
20	<i>Financial Instruments</i>
21	<i>Administered Items</i>
22	<i>Moneys Held in Trust</i>
23	<i>Reporting of Outcomes</i>



Note 1. Summary of Significant Accounting Policies

1.1 Basis of Accounting

These financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the Commonwealth Authorities and Companies (Financial Statements 2001/02) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by Australian Accounting Standards Boards;
- Other authoritative pronouncements of the Boards; and
- Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts;
- Explanatory Notes to Schedule 1 issued by the Department of Finance and Administration; and
- Finance Briefs issued by that Department.

APRA's Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in APRA's Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in APRA's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of APRA in its present form, and with its present programs, is dependent on Government policy, and on continuing appropriations by Parliament for APRA's administration and programs. These appropriations are primarily derived from levies on the institutions that APRA regulates (see Note 1.4).

Administered Items

Administered transactions relate to the levies, late lodgement and late payment penalties collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

While the revenues from these levies are in part used to fund the operations of APRA, they are first remitted to the Commonwealth's Official Public Account. A certain amount, as specified by the Treasurer in an annual Determination made under section 50(2) of the *Australian Prudential Regulation Authority Act 1998*, is

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

retained in the Consolidated Revenue Fund to fund the Australian Securities and Investments Commission (ASIC) for consumer protection and market integrity functions, and the Australian Taxation Office (ATO), for unclaimed moneys and lost member functions. The balance is drawn down by APRA under a Special Appropriation.

The same basis of accounting has been applied to the administered items as has been applied to APRA transactions.

1.2 *Changes in Accounting Policy*

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000/01, except in respect of presentation and disclosure of administered items (refer Note 21).

1.3 *Reporting by Outcomes*

A comparison of budget and actual figures by outcome specified in the Appropriation Acts relevant to APRA is presented in Note 23. Any intra-government costs included in the figure "Net cost to Budget outcomes" are eliminated in calculating the actual budget outcome for the Government overall.

1.4 *Revenue*

(a) Revenues from Government – APRA Appropriations

APRA is funded primarily through levies paid by the industries it regulates. The levies raised are transferred to APRA via a Special Appropriation, the amount transferred being net of the amount specified in the Treasurer's Determination to be retained in the Consolidated Revenue Fund (CRF) to fund consumer protection, market integrity, unclaimed moneys and lost member functions.

APRA revenue reflects its performance in managing the levy process, being reduced by any waivers or write-offs of debt.

(b) Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

(c) Other Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

(d) Insurance Recoveries

Revenue recognised as Insurance recoveries represent the costs received from the liability insurer for costs that APRA is incurring and will incur in preparing submissions for the HIH Royal Commission. Expenditure for the HIH Royal Commission is represented under Supplier expenses.

1.5 *Transactions by the Government as Owner*

Appropriations to APRA designated as "capital-equity injections" are recognised directly in equity to the extent drawn down as at the reporting date.

1.6 *Employee Entitlements*

(a) Leave

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of APRA is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at the end of the financial year and is recognised at its nominal amount.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. In determining the present value of the liability, APRA has taken into account attrition rates and pay increases through promotion and inflation.

(b) Separation and Redundancy

Provision is made for separation and redundancy payments in cases where APRA has formally identified positions as excess to requirements and a reliable estimate of the amount payable can be determined (see Note 12A).

(c) Superannuation

APRA employees contribute to the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, and the Reserve Bank Officers' Superannuation Fund. In addition, employer contributions are made to other superannuation funds, as nominated by the employee (see Note 6A).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

No liability for superannuation benefits is recognised as at 30 June as the employer contributions fully extinguish the accruing liability that is assumed by the Commonwealth, or by the other funds, as appropriate.

1.7 *Leases*

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives taking the form of "free" leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced, by allocating lease payments between rental expense and the reduction of the liability.

1.8 *Borrowing Costs*

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

APRA has no qualifying assets for which funds were borrowed specifically in 2001/02 (2000/01: nil).

1.9 *Cash*

Cash includes:

- Cash at bank;
- Petty cash; and
- Commonwealth and State Government securities (held for a maximum of 90 days).

1.10 *Financial Instruments*

Accounting policies in relation to financial instruments are stated at Note 20.

1.11 *Infrastructure, Plant and Equipment*

(a) Acquisition of Assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

(b) Asset Recognition Threshold

Purchases of plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$3,000 and all desk top computers, which are expensed in the year of acquisition. In 1999/00, a capitalisation threshold of \$2,000 was applied. The full effects of the change in accounting policy were recognised in 2000/01 (see Note 6D).

(c) Revaluations

Infrastructure, plant and equipment and leasehold improvements are revalued progressively in accordance with the “deprival” method of valuation every three years, so that no asset has a value greater than three years old. In 2000/01, all assets on hand, excluding intangible assets, were revalued as at 30 June 2001.

Where assets are held which would not be replaced or are surplus to requirements, measurement is at net realisable value. At 30 June 2002, APRA had no assets in this situation.

All valuations are independent.

(d) Recoverable Amount Test

Schedule 1 requires the application of the recoverable amount test to APRA’s non-current assets in accordance with *Australian Accounting Standard AAS 10- Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

(e) Depreciation and Amortisation

Depreciable equipment assets are written-off to their estimated residual values over their estimated useful lives to APRA using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates, useful lives and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2002	2001
Equipment	3 to 12 years	3 to 12 years
Leasehold improvements	Lower of 10 years or lease term	Lower of 10 years or lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 6C.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

1.12 *Intangibles*

(a) Acquisition of Assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows, including the expected cash inflows from future levies, have been discounted to their present value.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives. Useful lives are reviewed each year to assess potential obsolescence and relevance.

Depreciation and amortisation rates applying to each class of intangible asset are based on the following useful lives:

	2002	2001
Internally developed software	5 years	5 years
Purchased software	5 years	5 years

1.13 *Taxation*

APRA is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

1.14 *Insurance*

APRA has insured for risks through the Government's insurable risk managed fund Comcover. Workers compensation is insured through Comcare Australia.

1.15 *Comparative Figures*

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

1.16 ***Rounding***

Amounts have been rounded to the nearest \$1,000, except in relation to the following:

- Remuneration of Board members;
- Remuneration of officers (other than Board members); and
- Remuneration of auditors.

1.17 ***Restructuring***

APRA will continue to review its business functions. To the extent that positions are identified as redundant, or facilities over which leases are held are identified as excess to needs, provision is made for redundancies, surplus leased space and a reduction in the useful life for leasehold improvements.

Note 2. ***Economic Dependency***

APRA was established pursuant to the *Australian Prudential Regulation Authority Act 1998* as a separate legal entity of the Commonwealth of Australia. APRA is dependent on Government policy, and on continuing appropriations by Parliament for APRA's administration and programs. These appropriations are primarily derived from levies on the institutions that APRA regulates (see Note 1.4).

Note 3. ***Events Occurring After Reporting Date***

No events occurring after balance date were noted.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 4. Financial Institutions Supervisory Levies

This note provides details on APRA's management of levies collected under the *Financial Institutions Supervisory Levies Collection Act 1998*.

	2002	2001
	\$'000	\$'000
Note 4A. Summary		
Annual levies on APRA regulated institutions (see Note 4B)	69,832	61,295
Add: Late payment penalties (see Note 4C)	115	459
Add: Late lodgement penalties (see Note 4D)	156	273
Levy revenue to the Commonwealth (see note 4E)	70,103	62,027
Less: Waivers and write-offs (see Notes 4F and 4G)	(873)	(1,228)
Levy revenue net of waivers and write-offs (see Note 5H)	69,230	60,799
Less: Amounts retained in the Consolidated Revenue Fund (see Note 4I)	(14,668)	(14,919)
Funding of APRA by Special Appropriation (see Note 4J)	54,562	45,880
Note 4B. Annual levies on APRA regulated institutions		
Superannuation funds	28,570	24,969
Authorised deposit-taking institutions	23,464	22,632
Life insurers and friendly societies	8,751	8,453
General insurers	8,939	5,147
Retirement savings account providers	108	94
Total annual levies	69,832	61,295
Note 4C. Late payment penalties		
Superannuation funds	115	432
Authorised deposit-taking institutions	-	22
General insurers	-	5
Total late payment penalties	115	459
Note 4D. Late lodgement penalties		
Superannuation funds	156	273
Total late lodgement penalties	156	273
Note 4E. Total levy revenue to the Commonwealth		
Superannuation funds	28,841	25,674
Authorised deposit-taking institutions	23,464	22,654
Life insurers and friendly societies	8,751	8,453
General insurers	8,939	5,152
Retirement savings account providers	108	94
Total levy revenue to the Commonwealth	70,103	62,027

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 4. *Financial Institutions Supervisory Levies (continued)*

2002	2001
\$'000	\$'000

Note 4F. *Levies waived by APRA on behalf of the Commonwealth*

Superannuation funds	(370)	(517)
Life insurers and friendly societies	-	(142)
General insurers	(182)	-
Total levies waived	(552)	(659)

Note 4G. *Levies written-off by APRA on behalf of the Commonwealth*

Superannuation funds	(321)	(567)
Authorised deposit-taking institutions	-	(2)
Total levies written-off	(321)	(569)

Note 4H. *Levy revenue net of waivers and write-offs*

Superannuation funds	28,150	24,590
Authorised deposit-taking institutions	23,464	22,652
Life insurers and friendly societies	8,751	8,311
General insurers	8,757	5,152
Retirement savings account providers	108	94
Total levy revenue net of waivers and write-offs	69,230	60,799

Note 4I. *Amounts retained in the Consolidated Revenue Fund (see Note 1.1)*

Superannuation funds	(8,348)	(8,599)
Authorised deposit-taking institutions	(2,560)	(2,560)
Life insurers and friendly societies	(2,040)	(2,040)
General insurers	(1,720)	(1,720)
Total levy amount retained in CRF	(14,668)	(14,919)

Note 4J. *APRA Special Appropriation for 2001/02 levies*

Superannuation funds	19,802	15,991
Authorised deposit-taking institutions	20,904	20,092
Life insurers and friendly societies	6,711	6,271
General insurers	7,037	3,432
Retirement saving account providers	108	94
Total APRA special appropriation for 2001/02 levies	54,562	45,880

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 5. Operating Revenues

2002	2001
\$'000	\$'000

Note 5A. Revenues from Government

(a) Appropriations for Outputs

Annual Appropriation ¹	6,100	-
Special Appropriation levies (see Notes 4A. and 4J.)	54,562	45,880
Special Appropriation – net increase in opening debt related SAF levies	-	263
Prior year over-collections ²	-	2,954
Unearned Appropriation ³ (see Note 11B.)	(966)	-
Return of Appropriation (see note 5A. (1))	(2,500)	-
Total appropriations for outputs	57,196	49,097

Note 5A. (1) In the 2001/02 Additional Estimates, an Appropriation of \$4 million was made for HIH Royal Commission associated costs at a time when the position regarding insurance cover was not clear. Subsequently, many of the costs that APRA is incurring and will incur in preparing submissions for the Royal Commission have or are likely to be met by the insurer. Consequently, a significant part of the appropriation is unlikely to be required. As a result, \$2.5 million of the Appropriation is estimated to be surplus and was returned to the Official Public Account as a return of Appropriation in June 2002. The remaining Appropriation of \$1.5 million will be fully acquitted at the completion of the HIH Royal Commission scheduled for February 2003.

(b) Resources Received Free of Charge

Comcover insurance premium ⁴	-	270
Total resources received free of charge	-	270
Total revenues from government	57,196	49,367

Note 5B. Sales of Goods and Services

Goods	-	74
Services	485	442
Property sub-leases	846	749
Total sales of goods and services	1,331	1,265

Note 5C. Interest

Deposits	530	829
Commonwealth and State Government Securities	503	610
Total Interest	1,033	1,439

¹ Appropriation of \$4 million for HIH Royal Commission and \$2.1m for increased supervision of superannuation activities.

² Policy of recognising prior year over/under collections no longer applies.

³ Appropriation of \$1.5 million recognised in 2001/02 for the HIH Royal Commission is offset by \$533,812 in expenditure. The HIH Royal Commission is expected to be finalised in February 2003, \$966,188 is recognised as unearned appropriation revenue for 2001/02.

⁴ In 2001/02 the Comcover premium of \$235,231.62 was paid by APRA.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 5. Operating Revenues (continued)

2002	2001
\$'000	\$'000

Note 5D. Proceeds from Disposal of Assets

(a) Proceeds from Disposal of Assets

Infrastructure, plant and equipment	-	4
Total proceeds from disposal of assets	-	4

(b) Net Loss on Sale of Assets

Proceeds from disposal of assets	-	4
Less: Disposals of assets (see Note 6F)	(108)	(22)
Net loss on sale of assets	(108)	(18)

Note 5E. Insurance Recoveries

Insurance recoveries from our liability insurer for costs associated with the HIH Royal Commission

	2,636	-
Total Insurance Recoveries	2,636	-

Note 6. Operating Expenses

Note 6A. Employee Expenses

Remuneration (for services provided)	33,184	30,862
Separation and redundancy	34	767
Total remuneration	33,218	31,629

Other employee expenses	1,175	1,718
Total Employee Expenses	34,393	33,347

Superannuation

APRA contributes to the Commonwealth Superannuation (CSS) and the Public Sector (PSS) Superannuation schemes, which provide retirement, death and disability benefits to 23 per cent of its employees, previously employed by APRA's antecedent bodies. Contributions to the schemes are at rates calculated to cover existing and emerging obligations. Current contribution rates are 16.5 per cent of salary (CSS) and 11.0 per cent of salary (PSS). An additional 3 per cent is contributed for employer productivity benefits. Both of these schemes are closed to new APRA contributors. Employer contributions amounting to \$822,290.37 (2000/01: \$983,009) in relation to these schemes have been expensed in these financial statements. Employer Superannuation Productivity Benefit contributions totalled \$219,392.54 (2000/01: \$153,931).

Contributions on behalf of the balance of staff are made to various complying superannuation funds in accordance with the *Superannuation Guarantee (Administration) Act 1992*.

Note 6B. Suppliers Expenses

Supply of goods and services	15,254	11,380
Operating lease rentals	5,043	4,143
Total Suppliers Expenses	20,297	15,523

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 6. Operating Expenses (continued)

2002	2001
\$'000	\$'000

Note 6C. Depreciation and Amortisation

Depreciation of non-leased infrastructure, plant and equipment

1,497 1,796

Amortisation of leased assets

- 14

Amortisation of intangibles

1,334 1,023

Total Depreciation and Amortisation

2,831 2,833

The aggregate amounts of depreciation or amortisation expensed during the reporting period, for each class of depreciable asset, are as follows:

Infrastructure, plant and equipment

784 840

Leasehold improvements

713 970

Intangibles

1,334 1,023

Total Depreciation and Amortisation

2,831 2,833

Note 6D. Asset Threshold Change (see Note 1.11(b))

Impact on infrastructure, plant and equipment

- 649

Total impact of asset threshold change

- 649

Note 6E. Write-down of Assets

(a) Financial Assets

Receivables for goods and services

- 41

Total impact on financial assets

- 41

(b) Non-financial Assets

Infrastructure, plant and equipment – revaluation decrement

- 615

Infrastructure, plant and equipment – write-off

- 183

Intangibles - Work in Progress write down

1,602 -

Total impact on non-financial assets

1,602 798

Total write-down of assets

1,602 839

Note 6F. Disposal of Assets

Non-financial assets

Cost of infrastructure, plant and equipment disposed

108 22

Net book value of assets disposed

108 22

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 7. Borrowing Cost Expenses

	2002 \$'000	2001 \$'000
Finance charges on lease liabilities	-	2
Total borrowing cost expenses	-	2

Note 8. Financial Assets

Note 8A. Cash

Cash at bank and on hand	10,408	3,743
Deposits at call	8	10,053
Total cash	10,416	13,796

Note 8B. Receivables

(a) Receivables for Goods and Services

Receivable for goods and services	780	345
Less: Provision for doubtful debts	(2)	(41)
Net receivables for goods and services	778	304

(b) Appropriation receivable

Appropriations to be transferred after year end	-	219
Appropriation receivable related to outstanding levy debt	811	1,050
Less: Provision for doubtful debt related to outstanding levy debt	(74)	(557)
Net appropriation receivable	737	712

(c) GST receivable

GST receivable	409	513
Total GST receivable	409	513

(d) Total receivables

Gross value of receivables	2,000	2,127
Provision for doubtful debt	(76)	(598)
Net receivables	1,924	1,529

Receivables (gross) which are overdue are aged as follows:

Not overdue	1,809	1,268
Overdue by:		
-less than 30 days	108	233
-30 to 60 days	2	19
-60 to 90 days	3	14
-more than 90 days	78	593
Total receivables (gross)	2,000	2,127

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 8. Financial Assets (continued)

2002	2001
\$'000	\$'000

Note 8C. Accrued Revenues

Interest	53	77
Goods and Services	4	139
Accrued appropriation for levy revenue accruals	78	306
Total accrued revenues	135	522

Note 9. Non-Financial Assets

Note 9A. Infrastructure, Plant and Equipment

(a) Computer Hardware and Office Equipment

Computer hardware and office equipment – at cost	1,144	634
Accumulated depreciation	(262)	(11)
	882	623

Computer hardware and office equipment – at valuation (2001)	2,439	2,959
Accumulated depreciation	(1,428)	(1,288)
	1,011	1,671

Computer hardware and office equipment – under finance lease	-	33
Accumulated depreciation	-	(22)
	-	11

Total computer hardware and office equipment	1,893	2,305
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(b) Leasehold Improvements

Leasehold improvements – at cost	1,876	-
Accumulated depreciation	(510)	-
	1,366	-

Leasehold improvements – at valuation (2001)	5,832	7,043
Accumulated depreciation	(2,983)	(2,780)
	2,849	4,263

Total leasehold improvements	4,215	4,263
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Total infrastructure, plant and equipment	6,108	6,568
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The revaluations performed in 2000/01 were in accordance with the revaluation policy stated at Note 1.11 – *Infrastructure, Plant and Equipment* and were completed by an independent valuer, the Australian Valuation Office.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 9. Non-Financial Assets (continued)

2002	2001
\$'000	\$'000

Note 9B. Intangibles

Computer software - received free of charge - at fair value	128	128
Accumulated amortisation	(127)	(102)
	1	26
Computer software – internally developed - at cost	6,334	355
Accumulated amortisation	(862)	(213)
	5,472	142
Computer software – purchased - at cost	1,475	1,475
Accumulated amortisation	(591)	(295)
	884	1,180
Computer software – internally developed – deemed at cost (previously at valuation (1999))	1,925	1,925
Accumulated amortisation	(1,868)	(1,622)
	57	303
Computer software – purchased - deemed at cost (previously at valuation (1999))	600	600
Accumulated amortisation	(472)	(355)
	128	245
Computer software – internally developed – in progress – at cost	344	5,415
Accumulated amortisation	-	-
	344	5,415
Total intangibles	6,886	7,311

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 9. Non-Financial Assets (continued)

Note 9C. Analysis of Infrastructure, Plant and Equipment and Intangibles

Table A Movement summary 2001/02 for all assets irrespective of valuation basis

Item	Computer hardware and office equipment \$'000	Leasehold improvements \$'000	Intangibles \$'000	Total \$'000
Gross value as at 1 July 2001	3,626	7,043	9,898	20,567
Additions: Purchases of assets	567	665	2,511	3,743
Revaluations: write-ups/(write-downs)	(188)	-	-	(188)
Assets transferred in/(out)	-	-	-	-
Write-offs	-	-	(1,602)	(1,602)
Disposals	(421)	-	-	(421)
Gross value as at 30 June 2002	3,583	7,708	10,807	22,098
Accumulated depreciation/amortisation as at 1 July 2001	1,321	2,780	2,587	6,688
Disposals	(302)	-	-	(302)
Depreciation/amortisation charge for the year	784	713	1,334	2,831
Revaluations: write-ups/(write-downs)	(113)	-	-	(113)
Assets transferred in/(out)	-	-	-	-
Write-offs	-	-	-	-
Accumulated depreciation/amortisation as at 30 June 2002	1,690	3,493	3,921	9,104
Net book value as at 30 June 2002	1,893	4,215	6,886	12,994
Net book value as at 1 July 2001	2,305	4,263	7,311	13,879

Table B Summary of balances of assets at valuation as at 30 June 2002

Item	Infrastructure, plant and equipment \$'000	Total \$'000
As at 30 June 2002		
Gross value	8,271	8,271
Accumulated depreciation/amortisation	(4,411)	(4,411)
Net Book Value	3,860	3,860
As at 30 June 2001		
Gross value	10,002	10,002
Accumulated depreciation/amortisation	(4,068)	(4,068)
Net Book Value	5,934	5,934

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 9. Non-Financial Assets (continued)

Note 9C. Analysis of Infrastructure, Plant and Equipment and Intangibles (continued)

Table C

Summary of balances of assets held under finance leases as at 30 June 2002

Item	Infrastructure, plant and equipment \$'000	Total \$'000
As at 30 June 2002		
Gross value	-	-
Accumulated depreciation/amortisation	-	-
Net Book Value	-	-
As at 30 June 2001		
Gross value	33	33
Accumulated depreciation/amortisation	(22)	(22)
Net Book Value	11	11

Table D

Summary of balances of assets under construction as at 30 June 2002

Item	Computer software intangibles \$'000	Total \$'000
As at 30 June 2002		
Gross value	693	693
Accumulated depreciation/amortisation	-	-
Net Book Value	693	693
As at 30 June 2001		
Gross value	5,415	5,415
Accumulated depreciation/amortisation	-	-
Net Book Value	5,415	5,415

2002	2001
\$'000	\$'000

Note 9D. Other Non-financial assets

Prepayments	330	134
Total prepayments	330	134

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 10 *Interest Bearing Liabilities*

	2002 \$'000	2001 \$'000
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Leases

Finance lease commitments		
Not later than one year	-	9
Later than one year and not later than two years	-	17
Later than two years and not later than five years	-	-
Minimum lease payments	-	26
Deduct: future finance charges	-	(2)
Finance lease liability	-	24
Lease liability is represented by:		
Current	-	7
Non-current	-	17
Total finance lease commitments	-	24

The finance lease in 2000/01 related to a motor vehicle.
The lease expired in 2001/02. There are no contingent rentals.

Note 11. *Payables*

Note 11A. *Suppliers*

Trade creditors	2,905	5,093
GST payable to the Australian Taxation Office	25	27
Total suppliers	2,930	5,120

Note 11B. *Revenue in Advance*

Unearned appropriation revenue ¹ (see Note 5A)	966	-
Other revenue in advance	10	51
Total revenue in advance	976	51

¹ Appropriation of \$1.5 million recognised in 2001/02 for the HIH Royal Commission is offset by \$533,812 in expenditure. The HIH Royal Commission is expected to be finalised in February 2003, \$966,188 is recognised as unearned appropriation revenue for 2001/02.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 11. Payables (continued)

2002	2001
\$'000	\$'000

Note 11C. Loans

Loans from Government	-	5,439
Maturity schedule for loans:		
Payable: within one year	-	5,439
In one to two years	-	-
Total loans	-	5,439

APRA was appropriated \$16,144,000 in 1998/99 and a further \$3,998,000 in 1999/00 to fund establishment and transition costs, including the costs associated with the transfer of most of the functions of the Australian Financial Institutions Commission and the State Supervisory Authorities. The final repayment was made on 28 June 2002.

Note 12. Provisions

Note 12A. Employee Provisions

Salaries and wages	2,595	2,217
Leave	7,794	7,229
Separation and redundancy	-	554
Other	74	110
Aggregate employee entitlements liability	10,463	10,110
Current	5,954	5,632
Non-current	4,509	4,478
	10,463	10,110

Note 12B. Other Provisions

Surplus leased space	208	605
Make good premises at lease end	371	289
Lease incentives	1,596	1,857
Total other provisions	2,175	2,751
Current	623	1,008
Non-current	1,552	1,743
	2,175	2,751



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 13. Equity

Item	Capital		Asset Revaluation Reserve		Accumulated Results		Total Equity	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Balance 1 July	5,255	5,255	558	-	552	1,692	6,365	6,947
Operating result	-	-	-	-	2,965	(1,140)	2,965	(1,140)
Transfer to reserves	-	-	(75)	558	-	-	(75)	558
Balance 30 June	5,255	5,255	483	558	3,517	552	9,255	6,365

Note 14. Cash Flow Reconciliation

2002 2001
\$'000 \$'000

Reconciliation of operating surplus to net cash provided by operating activities:

Operating surplus/(deficit) before extraordinary items	2,965	(1,140)
Depreciation and amortisation of infrastructure, plant and equipment	1,497	1,810
Amortisation of intangibles	1,333	1,023
Infrastructure, plant and equipment written-off	-	183
Intangibles written-off	1,602	-
Infrastructure, plant and equipment threshold change	-	649
Infrastructure, plant and equipment revaluation decrement	-	615
Loss on disposal of infrastructure, plant and equipment	108	18
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(395)	4,872
(Increase)/decrease in accrued revenue	387	193
(Increase)/decrease in other non-financial assets	797	(63)
Increase/(decrease) in revenue in advance	925	(3,089)
Increase/(decrease) in leases	(24)	(11)
Increase/(decrease) in employees liabilities	353	(909)
Increase/(decrease) in suppliers liabilities	(2,190)	(758)
Increase/(decrease) in other provisions and payables	(575)	(15)
Net cash provided by operating activities	6,783	3,378

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 15. Remuneration of Board Members

	2002 \$	2001 \$
Aggregate amount of superannuation payments in connection with the retirement of Board Members	31,929	32,279
Other remuneration received or due and receivable by Board Members	730,146	683,735
Total remuneration received or due and receivable by Board Members	762,075	716,014

The number of Board Members of APRA included in these figures are shown below in the relevant remuneration bands:

	Number	Number
\$Nil - \$10,000	3	4
\$30,001 - \$40,000	1	-
\$40,001 - \$50,000	3	3
\$110,001 - \$120,000	-	1
\$120,001 - \$130,000	1	-
\$460,001 - \$470,000	-	1
\$470,001 - \$480,000	1	-
	9	9

Total remuneration for each Board Member includes, where applicable, changes in accumulated recreation and long service leave valued in accordance with Commonwealth policy guidelines. As a result, reported remuneration will increase where leave taken is less than the leave entitlements accrued during the year.

Note 16. Related Party Disclosures

Board Members of APRA

The Board Members of APRA during the year were:

Dr Jeffrey Carmichael (Chair)
Dr David Knox
Dr John Laker
Mr Ian Macfarlane
Mr Donald Mercer
Ms Marian Micalizzi
Mr Graeme Thompson (Chief Executive Officer)
Ms Berna Collier (appointed 6/11/2001)
Mr Rod Atfield (appointed 1/9/2001)

Board Members of APRA are determined in accordance with section 19 of the *Australian Prudential Regulation Authority Act 1998*. The Treasurer of the Commonwealth has the power to appoint ordinary members to the Board. The aggregate remuneration of Board Members is disclosed in Note 15 - *Remuneration of Board Members*.

Transactions with Board Member Related Entities

There were transactions between APRA and the following Board Member-related entities: the Reserve Bank of Australia; and the Australian Securities and Investments Commission.

The total value of payments and amounts payable to the Reserve Bank of Australia was \$72,726 (2001: \$75,560) and related to banking services. The total value of receipts and amounts receivable from the Reserve Bank of Australia was \$513,143 (2001: \$840,081) and arose mainly in its capacity as banker to APRA.

The total value of payments and amounts payable to PricewaterhouseCoopers was \$Nil (2001: \$146,693) and related mainly to the provision of consulting services. The total value of receipts and amounts receivable from PricewaterhouseCoopers was \$Nil (2001: \$3,039) and arose mainly from seminar attendance fees.

The total value of payments and amounts payable to the Australian Securities and Investments Commission was \$116,918 (2001: \$93,642) and related mainly to a staff secondment. The total value of receipts and amounts receivable from the Australian Securities and Investments Commission was \$Nil (2001: \$3,098).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 17. Remuneration of Officers

2002 2001
\$ \$

The aggregate amount of total remuneration of Officers shown is:

7,709,790 7,512,453

The number of Officers included in these figures are shown below in the relevant income bands:

	Number	Number
\$100,000 - \$110,000	-	3
\$110,001 - \$120,000	5	8
\$120,001 - \$130,000	3	3
\$130,001 - \$140,000	6	5
\$140,001 - \$150,000	8	7
\$150,001 - \$160,000	3	3
\$160,001 - \$170,000	2	-
\$170,001 - \$180,000	4	4
\$180,001 - \$190,000	3	5
\$190,001 - \$200,000	3	2
\$200,001 - \$210,000	2	-
\$210,001 - \$220,000	1	-
\$230,001 - \$240,000	-	2
\$240,001 - \$250,000	1	-
\$270,001 - \$280,000	-	1
\$300,001 - \$310,000	3	1
\$340,001 - \$350,000	-	2
\$350,001 - \$360,000	1	-
	45	46

The remuneration of officers' table includes all officers concerned with or taking part in the management of APRA during 2001/02, whose total remuneration exceeded \$100,000, except the Chief Executive Officer. Details in relation to the Chief Executive Officer have been incorporated into Note 15 – *Remuneration of Board Members*.

Note 18. Remuneration of Auditors

2002 2001
\$ \$

Remuneration to Australian National Audit Office for auditing the Financial statements for the reporting period (exclusive of GST)

68,500 66,000

The Australian National Audit Office provided no other services during the reporting period.

Note 19. Average Staffing Levels

The average number of employees for the Authority during the year was:

407 395

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 20. Financial Instruments

(a) Terms, Conditions and Accounting Policies

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash at Bank	8A	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	Surplus funds are temporarily placed in the operating bank account with APRA's banker. Interest is earned on the daily balance at the prevailing daily rate and is paid on the first day of the following month.
Commonwealth and State Government Securities	8A	Commonwealth and State Government securities are recognised at amortised cost (i.e. at original cost adjusted for amortisation to date of any discount or premium when originally issued). Interest is credited to revenue as it accrues.	APRA invests in securities with terms of up to 90 days. They are guaranteed by the issuing government and are traded in active markets. Effective interest rates averaged 4.21 per cent (2000/01: 6.17 per cent). Interest is paid on maturity.
Receivables for goods and services	8B	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms for receivables are net 30 days (2000/01: 30 days).
Accrued Revenues	8C	Accrued revenues are recognised at the nominal amounts as it accrues.	Accrued interest revenues are due on the first day of the next month for interest on the operating account and on maturity on securities. Accrued revenues for Goods and Services are due within 30 days of invoicing.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 20. Financial Instruments (continued)

(a) Terms, Conditions and Accounting Policies (continued)

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Loans	11C	The loans are recognised as a liability on receipt of the appropriation.	The loans are to fund the establishment of APRA. The balance was repaid on 28 June 2002. No interest is payable.
Revenue in Advance	11B	Where revenue is received in advance of the service being provided the balance relating to work yet to be completed is recognised as revenue in advance.	APRA will recognise the revenue in advance, as revenue as the related work is completed.
Finance lease liabilities	10	Finance lease liabilities are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	The finance lease in 2000/01 related to a motor vehicle. The lease expired in 2001/02. The interest rate implicit in the lease averaged 8.11 per cent.
Provisions	12B	The lease incentives are recognised as a liability on receipt of the incentives. The amount of the liability is reduced on a straight-line basis over the life of the lease by allocating lease payments between rental expense and reduction of the liability.	APRA received rent-free periods and cash lease incentives in August 1998, February 1999 and February 2001. On 1 July 1998 APRA assumed the lease incentive liabilities of the Insurance and Superannuation Commission.
Trade creditors	11A	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.



NOTE 20. Financial Instruments (continued)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

(b) Interest Rate Risk:

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate 1 year or less		Fixed Interest Rate 1 to 2 years		Fixed Interest Rate 2 to 5 years		Non-Interest Bearing		Total		Weighted Average Effective Interest Rate	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %
Financial Assets (Recognised)															
Cash at bank	8A	10,405	3,740	-	-	-	-	-	-	-	-	10,405	3,740	4.40	4.65
Cash on hand	8A	-	-	-	-	-	-	-	-	3	3	3	3	n/a	n/a
Commonwealth and State Government Securities	8A	-	-	8	10,053	-	-	-	-	-	-	8	10,053	3.41	6.17
Receivables	8B	-	-	-	-	-	-	-	-	1,924	1,529	1,924	1,529	n/a	n/a
Accrued Revenues	8C	-	-	-	-	-	-	-	-	135	522	135	522	n/a	n/a
Total Financial Assets (Recognised)		10,405	3,740	8	10,053	-	-	-	-	2,062	2,054	12,475	15,847		
Total Assets												25,779	29,860		
Financial Liabilities (Recognised)															
Loans	11C	-	-	-	-	-	-	-	-	-	5,439	-	5,439	n/a	n/a
Revenue in Advance	11B	-	-	-	-	-	-	-	-	976	51	976	51	n/a	n/a
Leases	10	-	-	-	7	-	17	-	-	-	-	-	24	-	8.11
Provisions	12B	-	-	-	-	-	-	-	-	1,596	1,857	1,596	1,857	n/a	n/a
Suppliers	11A	-	-	-	-	-	-	-	-	2,930	5,120	2,930	5,120	n/a	n/a
Total Financial Liabilities (Recognised)		-	-	-	7	-	17	-	-	5,502	12,467	5,502	12,491		
Total Liabilities												16,544	23,495		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 20. Financial Instruments (continued)

(c) Net Fair Values of Financial Assets and Liabilities

	Note	2002 Total carrying amount \$'000	2002 Aggregate net fair value \$'000	2001 Total carrying amount \$'000	2001 Aggregate net fair Value \$'000
Financial Assets					
Cash at bank	8A	10,405	10,405	3,740	3,740
Cash on hand	8A	3	3	3	3
Commonwealth and State Government Securities	8A	8	8	10,053	10,053
Receivables	8B	1,924	1,924	1,529	1,529
Accrued Revenue	8C	135	135	522	522
Total Financial Assets		12,475	12,475	15,847	15,847
Financial Liabilities (Recognised)					
Loans	11C	-	-	5,439	5,439
Revenue in Advance	11B	976	976	51	51
Leases	10	-	-	24	24
Provisions	12B	1,596	1,596	1,857	1,857
Suppliers	11A	2,930	2,930	5,120	5,120
Total Financial Liabilities (Recognised)		5,502	5,502	12,491	12,491

Financial assets

The net fair values of cash, government securities and non-interest bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair values of the finance lease liabilities are based on discounted cash flows using current interest rates for liabilities with similar risk profiles.

The net fair values for suppliers, loans, and revenue in advance are approximated by their carrying amounts.

(d) Credit Risk Exposures

APRA's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

APRA's highest credit risk exposure is levies of \$810,558 (2001: \$1,050,236), which were receivable at 30 June 2002 from superannuation funds regulated by APRA. The asset has been recognised in the Statement of Financial Position, net of a provision for doubtful debts. All figures for credit risk referred to do not take into account the value of any collateral or other security.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 21. Administered Items

2002	2001
\$'000	\$'000

Note 21A. Revenues Administered on Behalf of Government for the year ended 30 June 2002

Revenues

Taxation

Financial institutions supervisory levies current and prior years	69,337	62,027
Financial institutions supervisory levies 2002/03	23,481	-
Total taxation	92,818	62,027

Non-Taxation

Refunds by APRA of overpayments by institutions ¹	766	639
Total non-taxation	766	639

Total Revenues Administered on Behalf of Government²	93,584	62,666
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(1) An amount totalling \$23.481 million in relation to levies for the 2002/03 financial year, which were due on 1 July 2002, was received by 30 June 2002. This amount has been recognised as revenue in 2001/02 as the Commonwealth had control of the asset (cash) as at 30 June 2002, and it was highly unlikely that any part of the money would be claimed by industry as at that date. This is a change in accounting policy from 2000/01. In that year an amount of \$4.461 million relating to early payment of 2000/01 levies was recognised as "revenue in advance" (see Note 21D). If the revised policy had been applied last year, revenue for 2000/01 would have been higher by an amount of \$4.461 million and revenue for 2001/02 would have been lower by the same amount.

Note 21B. Expenses Administered on Behalf of Government for the year ended 30 June 2002

Expenses

Net write-down of assets

Levies Waived (see Note 4F)	552	659
Levies Written-off (see Note 4G)	321	569
Total Write Down of Assets	873	1,228

Total Expenses Administered on Behalf of Government	873	1,228
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¹ Where it is subsequently determined that amounts are to be refunded to financial institutions and the related amount has already been paid to APRA, APRA remits the funds directly to the institution from its operating account. APRA is therefore meeting an obligation of the Commonwealth and an administered revenue results.

² Under APRA's legislation, an amount equal to the amount payable to the Commonwealth for industry levies in a financial year, in excess of the amount determined by the Treasurer for that financial year to be retained by the Commonwealth to fund certain activities of the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO), is payable to APRA through a Special Appropriation. Consequently, APRA's funding for 2001/02 does not include an amount of \$14.668 million determined by the Treasurer for retention by the Commonwealth, nor the amount of \$23.481 million for 2002/03 levies paid in advance (see further, Note 4). The latter amount, less the amount of the Treasurer's determination for 2002/03, will form part of APRA's funding for 2002/03.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 21. Administered Items (continued)

2002	2001
\$'000	\$'000

Note 21C. Assets Administered on Behalf of Government as at 30 June 2002

Financial Assets

Receivables

Superannuation Levies	811	1,050
Less: Provision for doubtful debts	(74)	(557)
Net receivables	737	493

Receivables which are overdue are aged as follows:

Not overdue	622	267
Overdue by:		
Less than 30 days	108	232
30 to 60 days	2	18
60 to 90 days	3	3
More than 90 days	76	530
Total levies receivable	811	1,050

Accrued Revenues

Accrued levy revenue	78	306
Total accrued revenues	78	306

Total Assets Administered on Behalf of Government	815	799
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Note 21D. Liabilities Administered on Behalf of Government as at 30 June 2002

Payables

Supervisory levies paid in advance (See Note 21A(1))	-	4,461
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Total Liabilities Administered on Behalf of Government	-	4,461
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Note 21E. Administered Cash Flows for the year ended 30 June 2002

OPERATING ACTIVITIES

Cash received

Financial institutions supervisory levies	89,166	68,460
Total cash received	89,166	68,460

Cash used

Cash to official public account	(89,166)	(68,460)
Total cash used	(89,166)	(68,460)

Net cash from operating activities	-	-
Net increase (decrease) in cash held	-	-
Cash at the beginning of the reporting period	-	-
Cash at the end of the reporting period	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 21. Administered Items (continued)

Note 21F. Administered Financial Instruments

(a) Terms, Conditions and Accounting Policies

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Receivables for Levies	21C	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms for levies comply with the due date for payment of levies, as specified under the <i>Financial Institutions Supervisory Levies Collection Act 1998</i> . For non-superannuation entities the due date for payment is 1 July of the financial year, or within six weeks of becoming a regulated entity. For superannuation entities, the due date for payment is within six weeks of lodgement of an annual return, or within six weeks of becoming a regulated entity.
Accrued Revenue	21C	Accrued revenues are recognised at the nominal amounts as it accrues. The amount recognised relates to superannuation returns which have been lodged but for which the related levies have not been invoiced as at the end of the financial year.	The levies will be invoiced with a due date for payment consistent with the legislation as detailed above.
Financial Liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Revenue in Advance	21D	Revenue in advance relates to levies paid before the end of the financial year in respect of the following financial year.	The Commonwealth will recognise the revenue in advance, as revenue, in the following financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 21. Administered Items (continued)

Note 21F. Administered Financial Instruments

(b) Interest rate risk

Financial Instrument	Note	Non-Interest bearing		Total	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Financial Assets (Recognised)					
Receivables	21C	737	493	737	493
Accrued Revenue	21C	78	306	78	306
Total Financial Assets (Recognised)		815	799	815	799
Total Assets		815	799	815	799
Financial Liabilities (Recognised)					
Revenue in Advance	21D	-	4,461	-	4,461
Total Financial Liabilities (Recognised)		-	4,461	-	4,461
Total liabilities		-	4,461	-	4,461

(c) Net Fair Values of Financial Assets and Liabilities

	Note	Total carrying amount 2002 \$'000	Aggregate net fair value 2002 \$'000	Total carrying amount 2001 \$'000	Aggregate net fair value 2001 \$'000
Financial Assets					
Receivables	21C	737	737	493	493
Accrued Revenue	21C	78	78	306	306
Total Financial Assets		815	815	799	799
Financial Liabilities					
Revenue in Advance	21D	-	-	4,461	4,461
Total Financial Liabilities		-	-	4,461	4,461

Financial assets

The net fair values of financial assets approximate their carrying amounts.

(d) Credit Risk Exposures

The Commonwealth's maximum exposures to credit risk at reporting date, in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in Note 21C.

The Commonwealth's highest credit risk exposure is levies of \$810,558 (2001: \$1,050,236) receivable at 30 June 2002 from superannuation funds regulated by APRA. The asset has been recognised in Note 21C, net of a provision for doubtful debts.

Note 22. *Moneys held in Trust*

APRA's antecedent body, the Insurance and Superannuation Commission, reported in 1997-98 the existence of certain amounts held in trust on behalf of the Commonwealth. The subsequent dispersal of these funds, necessitated by the establishment of APRA as a corporate body as defined in the *Commonwealth Authorities and Companies Act 1997*, was not clearly stated in subsequent APRA annual reports.

An amount of \$6,250 held in the Reserved Money Fund – Other Trust Moneys as untraceable moneys, was transferred to the Official Public Account by the Department of Finance and Administration, in June 2002.

Note 23. *Reporting of Outcomes*

Note 23A. *Outcomes of the Authority*

APRA is structured to meet the following outcome:

Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, completion, contestability and competitive neutrality.

Only one Output Group is identified for the Outcome. The Output group consists of three outputs: policy development; surveillance programmes; and prudential advice.

Note 23B. *Total Cost/Contribution of Outcomes*

	Outcome 1	
	Actual \$'000	Budget \$'000
Net Taxation, fees, fines and revenues ¹	(91,945)	(66,579)
Other Administered Revenues	(766)	-
Other Administered Expenses	-	-
Net Cost of Departmental Outputs	54,231	51,911
Net Cost to Budget outcome ²	(38,480)	(14,668)

¹ Invoicing for 2002/03 financial year levies resulted in the collection of \$23.481m prior to 30 June 2002 Refer to Note 21A.

² APRA is funded through a Special Appropriation, which is equal to the amount of levies payable to the Commonwealth during the financial year, less an amount determined by the Treasurer under section 50 of the APRA Act 1998 to be retained for funding certain related activities of the ASIC and the ATO. For 2001/02, the Treasurer determined an amount of \$14,668 million be retained by the Commonwealth. As a result, the budget column for "Net Cost to Budget Outcome" equals the amount of the Treasurer's determination.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 23. Reporting of Outcomes (continued)

Note 23C. Major Departmental Revenues and Expenses by Output Group

	Output 1.1.1 Policy Development		Output 1.1.2 Surveillance Programmes		Output 1.1.3 Prudential Advice		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Operating Revenues								
Revenues from Government	6,607	5,756	47,096	32,304	3,493	11,307	57,196	49,367
Sale of Goods and Services	156	147	1,106	828	69	290	1,331	1,265
Interest	120	168	859	941	54	330	1,033	1,439
Proceeds from Disposal of Assets	-	-	-	4	-	-	-	4
Insurance Recoveries	-	-	-	-	2,636	-	2,636	-
Total Operating Revenues	6,883	6,072	49,061	34,077	6,252	11,927	62,196	52,075
Operating Expenses								
Employees	5,166	4,296	27,009	21,798	2,218	7,253	34,393	33,347
Suppliers	2,259	2,355	16,101 ¹	10,958	3,647	3,719	22,007	17,033
Depreciation and Amortisation	463	290	2,071	1,798	297	745	2,831	2,833
Borrowing costs	-	-	-	2	-	-	-	2
Total Operating Expenses	7,888	6,941	45,181	34,554	6,162	11,718	59,231	53,213

¹ Includes asset threshold change, write-down of assets and disposal of asset expenses, where applicable.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note 23. Reporting of Outcomes (continued)

Note 23D. Major Classes of Departmental Assets and Liabilities by Output Group

	Output 1.1.1		Output 1.1.2		Output 1.1.3		Non-Attributable		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Other departmental assets										
Receivables	-	-	-	-	-	-	1,924	1,529	1,924	1,529
Accrued Revenues	-	-	-	-	-	-	135	522	135	522
Other	-	-	-	-	-	-	330	134	330	134
Cash	-	-	-	-	-	-	10,416	13,796	10,416	13,796
Infrastructure, Plant and Equipment	-	-	-	-	-	-	6,108	6,568	6,108	6,568
Intangibles	-	-	-	-	-	-	6,886	7,311	6,886	7,311
Other departmental assets	-	-	-	-	-	-	25,799	29,860	25,799	29,860
Other departmental liabilities										
Employees	-	-	-	-	-	-	10,463	10,110	10,463	10,110
Revenue in Advance	-	-	-	-	-	-	976	51	976	51
Other	-	-	-	-	-	-	2,175	2,751	2,175	2,751
Suppliers	-	-	-	-	-	-	2,930	5,120	2,930	5,120
Leases	-	-	-	-	-	-	-	24	-	24
Loans	-	-	-	-	-	-	-	5,439	-	5,439
Total other departmental liabilities	-	-	-	-	-	-	16,544	23,495	16,544	23,495

Note 23. *Reporting of Outcomes (continued)*

Note 23E *Major Classes of Administered Revenues and Expenses by Outcome*

	Outcome 1	
	2002	2001
	\$'000	\$'000
Operating revenues		
Financial Institution Supervisory Levies	92,818	62,027
Refunds by APRA	766	639
Total operating revenues	93,584	62,666
Operating expenses		
Levies waived	552	659
Levies written-off	321	569
Total operating expenses	873	1,228

Note 23F. *Major Classes of Administered Assets and Liabilities by Outcome*

Outcome specific administered assets		
Financial Institution Supervisory Levies Receivable	737	493
Accrued levy revenue	78	306
Total specific administered assets	815	799
Outcome specific administered liabilities		
Financial institutions supervisory levies 2002/03	-	4,461
Total Outcome specific administered liabilities	-	4,461

There are no other administered asset or liabilities.

Independent Audit Report

To the Minister for Revenue and Assistant Treasurer

Scope

I have audited the financial statements of the Australian Prudential Regulation Authority for the year ended 30 June 2002. The financial statements comprise:

- Statement by Board Members;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the financial statements.

The members of the Board are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Authority's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial statements:

- have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Australian Prudential Regulation Authority as at 30 June 2002, and its financial performance and cash flows for the year then ended.

Australian National Audit Office

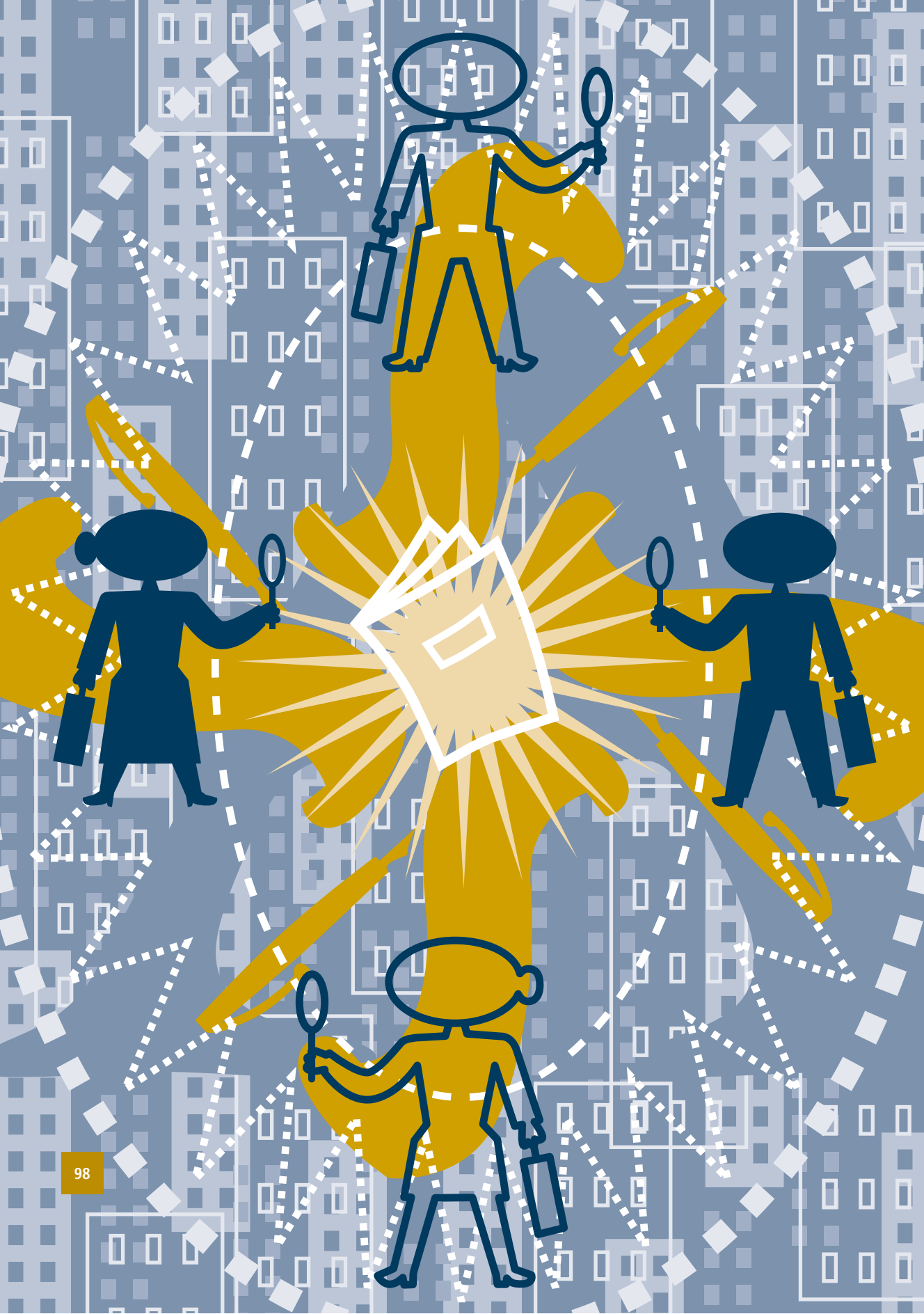
P Hinchey

Senior Director



Delegate of the Auditor-General
Sydney
16 August 2002





Statutory report

STATUTORY REPORTING REQUIREMENTS INDEX

APRA has reported in accordance with the following Commonwealth legislation:

<i>Australian Prudential Regulation Authority Act 1998</i>	100
<i>Commonwealth Authorities and Companies Act 1997</i>	101
<i>Equal Employment Opportunity (Commonwealth Authorities) Act 1987</i>	103
<i>Freedom of Information Act 1992</i>	104
<i>Environmental Protection and Biodiversity Conservation Act 1999</i>	107
<i>Occupational Health and Safety (Commonwealth Employment) Act 1991 and the Commonwealth Fraud Control Guidelines and the Department of the Prime Minister and Cabinet Guidelines</i>	107



APRA

Australian Prudential Regulation Authority

Annual Report 2002/*Statutory report*

Report under section 59

Section 59 of the APRA Act requires APRA to report on:

- the activities of ADI statutory managers within the meaning of the *Banking Act 1959* and persons conducting investigations under Division 2 of Part II and section 61 of that Act;
- the exercise during the year of APRA's powers under Part 15 of the *Retirement Savings Accounts Act 1997* and Part 29 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

APRA did not appoint any ADI statutory managers or persons to conduct an investigation under Division 2 of Part II or section 61 of the *Banking Act* during 2001/02. There were no continuing appointments during that year.

APRA did not exercise its powers under Part 15 of the *Retirement Savings Accounts Act 1997* during the year. It exercised its powers under Part 29 of the SIS Act as set out below:

Exemption number	Date	Provision of SIS Act regulations exempted
119	28/9/01	Subsection 93(4)
120	10/10/01	Regulation 9.29
121	24/12/01	Regulation 9.29
122	18/1/02	Subregulation 6.17(2)
123	4/2/02	Paragraph 9.29(a)
124	25/1/02	Regulation 6.28
125	22/2/02	Paragraph 9.29(a)
126	7/2/02	Regulation 9.29

Commonwealth Authorities and Companies Act 1997

Auditor-General's activities

The Australian National Audit Office (ANAO) commenced its performance audit of APRA's prudential supervision of superannuation funds with prudential supervision of the insurance industry expected to follow.

In addition, see page 97 of the Financial statements in this Report.

Board members' attendance

See page 47 of the Corporate governance section of this Report.

Board members' qualifications

See pages 48-49 of the Corporate governance section of this Report.

Board members' statement

See page 55 of Financial statements in this Report.

Courts and tribunals

During 2001/02, there were no significant judicial decisions or comments, or decisions or comments made by an administrative tribunal, that had, or may have, a significant effect on APRA's operations.

The Enforcement section of this Report contains details of court decisions relating to enforcement action taken by APRA.

Enabling legislation

APRA's purpose, powers and functions are set out in sections 8, 9, 9A and 11 of the *Australian Prudential Regulation Authority Act (1998)*.

APRA's purpose is to regulate bodies in the financial sector in accordance with the laws of the Commonwealth that provide for prudential regulation or retirement income standards, and for developing the policy to be applied in performing that regulatory role. In providing this regulation and developing this policy, APRA is required to balance the objectives of financial safety and efficiency, and competitive neutrality.

Financial statements

See page 56 of Financial statements in this Report.

Indemnities and insurance premiums

The Board has indemnities with Board members and, as required, officers, consistent with, and to the extent allowed by, section 27M of the CAC Act.

APRA directors and officers are covered by the professional indemnity insurance cover of the Commonwealth-managed insurance fund, Comcover. The generic terms and conditions of the insurance cover provided by Comcover to Commonwealth agencies are available on the Comcover internet site:

www.finance.gov.au/comcover. Under the conditions of the policy, APRA is prohibited from disclosing the specific nature and limit of the liabilities covered and the amount of the premium.

Location

See the inside back cover of this Report.

Organisational chart

See page 110 of this Report.



Parliamentary committees

In addition to scheduled appearances before the Senate Economics Legislation Committee in February, March and June 2002, APRA was very active in appearances before, and preparing submissions to, parliamentary committees.

The Senate Select Committee on Superannuation and Financial Services issued its first and second reports on prudential supervision, consumer protection for superannuation, banking and financial services in August 2001, and its third on auditing of superannuation funds. All three reports are yet to be formally responded to by Government.

The first of these reports addressed the adequacy of the regulatory framework, made recommendations that APRA act more quickly when matters come to its attention, work more closely with other regulators, establish a consumer office and improve community awareness of superannuation.

The second report dealt with case studies, only two of which were relevant to APRA. The report's recommendations included amending the SIS Act to tighten requirements of trustees to notify the regulator of particular significant adverse events; changes to the *Managed Investments Act 1998* to ensure that funds invested for superannuation purposes are supervised by APRA; and that APRA bears the cost of a replacement trustee appointed to make a number of superannuation funds compliant.

The third report relating to the auditing of superannuation funds, recommended that larger funds be reviewed by APRA on a minimum cycle of

once every five years, and the strengthening of certain audit requirements.

A fourth report by this Committee, tabled in January 2002, reported on the effectiveness and efficiency of the current rules governing early access to superannuation benefits on compassionate and severe hardship grounds. It agreed with APRA's strong recommendation that all early release should be administered by a single government agency – Centrelink. This report is also waiting formal response by Government.

APRA officers also assisted the activities of the Senate Standing Committee for the Scrutiny of Bills in relation to its consideration of strict liability legislation, and made submissions to other committees including the Joint Committee of Public Accounts and Audit.

The House of Representatives Standing Committee on Economics and Finance and Public Administration in June 2001 undertook, among other things, to review a report by the Auditor General on APRA's prudential supervision of banks. This review was deferred to March 2002, pending the outcome of the HIH Royal Commission. With the rising of the 39th Parliament, the review had not commenced, and APRA has not received notice that the Committee's review is still current.

Privacy Commission

There was one investigation by the Privacy Commissioner under section 36 of the *Privacy Act 1988* during 2001/02. No reports were served under section 30 of the Act. The Privacy Commission made no determinations under section 52, nor did APRA seek any under section 72.



Other than preliminary comments in relation to a particular event made in connection with the section 36 investigation, there were no adverse or favourable comments made by the Privacy Commission in respect of APRA's operations.

Privacy inquiries relating to APRA should be addressed to:

The Privacy Officer
Office of General Counsel
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001
Phone: 02 9210 3000 Fax: 02 9210 3424

Responsible Ministers

The Hon Peter Costello MP, Treasurer of the Commonwealth of Australia, has portfolio responsibility for APRA.

He is assisted in this by Senator the Hon Helen Coonan, Minister for Revenue and Assistant Treasurer. Previously, he was assisted by the Hon Joe Hockey, MP, who was then Minister for Financial Services and Regulation, and Senator the Hon. Rod Kemp, Assistance Treasurer.

Review of operations and prospects

See the narrative section of this Report, beginning on page 3.

Risk Management and Audit Committee attendance

See page 46 of the Corporate governance section of this Report.

Statement on Governance

See the Corporate governance section of this Report.

Equal Employment Opportunity (Commonwealth Authorities) Act 1987

EEO staff data

Staff diversity as at 30 June 2002

	Female	NESB1	NESB2	ATSI	PWD	Total
Level 1	55	7	0	0	0	71
Level 2	54	23	1	0	0	91
Level 3	52	25	1	0	0	143
Level 4	23	13	3	0	0	69
Senior	5	8	1	0	0	46
Executive	0	0	0	0	0	4
Total	189	76	6	0	0	424

NESB1 Non-English-speaking background, first generation
 NESB2 Non-English-speaking background, second generation
 ATSI Aboriginal and Torres Strait Islander
 PWD People with disability

Workplace diversity program report

APRA has taken a proactive and innovative approach in meeting responsibilities under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*, by establishing a comprehensive Workplace Diversity strategy. This includes the creation of flexible and inclusive employment that values and utilises the contribution of people of different backgrounds, experiences, perspectives and abilities. This strategy retains the essential EEO principles in relation to non-discrimination and equal employment opportunity, and also recognises the broader concept of diversity in ensuring a tolerant workplace free from all forms of harassment.

APRA has worked closely with the Council for Equal Opportunity in Employment Ltd in identifying issues most important to staff and developing the strategy to address these issues. The Staff Consultative Group plays a key role in ensuring the implementation and ongoing review of this strategy. Some of the key objectives of this strategy include:

- staff satisfaction with work/life balance is maximised over time;
- career management program is responsive to diversity and maximises development opportunities for all employees;
- APRA continues to take steps to promote a discrimination and harassment-free workplace and effectively responds to any issues that may arise.

Freedom of Information Act 1982

The *Freedom of Information Act 1982* (the FOI Act) provides the public with a general right of access to documents held by Commonwealth Agencies, including APRA. This general right is limited by exceptions needed to protect essential public

interests or the privacy and business affairs of those who give information to APRA or the Commonwealth.

In 2001/02, APRA received 16 applications under the FOI Act and three applications for internal review.

During that year, FOI applications (including an application received in 2000/01) were dealt with as follows:

Granted in full	3
Granted in part	5
Access refused	2
Withdrawn	3
Transferred to another agency	1
On hand at 30 June 2001	3
Total	17

While charges collected were \$544.50, the estimated cost of handling Freedom of Information requests in 2001/02 was \$3,000.

Initial contact for requests under FOI Act

Requests under the Freedom of Information Act should be made in writing, together with the prescribed fee, to:

The FOI Coordinator

Office of General Counsel

Australian Prudential Regulation Authority

GPO Box 9836

Sydney NSW 2001

Phone: 02 9210 3000 Fax: 02 9210 3424

Access to documents

APRA is increasingly using the internet to make its publications available to the public free of charge from the APRA website. The website contains applications, regulatory information, prudential statements, circulars and guidelines covering the types of entities that APRA regulates. These may be changed over time with the completion of various projects.

Some publications, however, attract a charge. A list of documents available for inspection and purchase is available on the internet.

In addition, a list of documents that are used by APRA in making decisions or recommendations for the purposes of legislation administered by APRA, made under section 9 of the FOI Act, has been lodged with the Freedom of Information Controller at National Archives of Australia in Canberra.

Questions about publications should be made to:

Public Affairs

Australian Prudential Regulation Authority

GPO Box 9836

Sydney NSW 2001

AUSTRALIA

Phone: 02 9210 3000 Fax: 02 9210 3430

Categories of documents

APRA maintains the following categories of documents covered by s.8(1)(a)(iii) of the FOI Act:

- documents open to public access as part of a public register in accordance with an enactment where access is subject to a fee or other charge:
 - accounts and auditor certificates relating to general insurers available under the former s.122 of the *Insurance Act 1973*
- other documents available for purchase by the public in accordance with arrangements made with APRA:
 - life insurance publications (financial diskette containing annual data and market statistics from half-yearly data)
 - prudential standards and rules made under the *Banking Act 1959* and the *Life Insurance Act 1995* (also available on APRA's website)
- documents made available to the public free via APRA's website (www.apra.gov.au):
 - Lists of regulated entities and industry bodies
 - Prudential standards and rules made under the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1995*, and guidance notes
 - Transitional prudential standards made under the *Financial Sector Reform (Amendments and Transitional Provisions) Regulations 1999*
 - Reporting standards made under the *Financial Sector (Collection of Data) Act 2001* together with reporting forms and instructions for the lodgement of returns
 - Transfer Rules made under the *Financial Sector (Transfers of Business) Act 1999*
 - Class consent under section 66 of the *Banking Act 1959*
 - Market statistics (including APRA *Insight*) and other research material
 - Policy discussion papers
 - Media releases
 - Seminar papers and copies of speeches given on behalf of APRA
 - 'Points of Presence' (concerning the availability of banking services in rural and regional areas)
 - Insurance and Superannuation Bulletins
 - Corporate information
 - Procedural guidelines
 - Enabling legislation
 - Indexed file list for the purposes of Senate Continuing Order No. 5.

Consultative arrangements

In most cases, APRA consults with industry bodies and regulated entities prior to formulating or amending policies or finalising prudential standards.

Executive and consultative committees

Executive Committee

This Committee comprises the Chief Executive Officer and the Executive General Managers and is responsible for oversight of policy and operational issues throughout APRA.

Executive Team

The Executive Team meet quarterly to review progress in building APRA's business plan, to monitor performance against it and oversee modifications (if any). It has also taken on some functions of the now abolished Change Management Steering Committee.

Cross-divisional industry groups

These four groups promote consistent practice and application of existing policy on material issues across the industry. These are issues that set an industry precedent or require clear consistent APRA-wide interpretation of existing policy, but do not include issues leading to new or changed policy.

Information Technology Operating Committee

The Committee's function is to monitor progress of IT projects, recommend prioritisation and allocation of resources for approved projects and review and recommend new projects.

Knowledge Management Steering Committee

The Committee provides feedback, recommends improvements and provides assistance and

guidance on cross-divisional operational issues and performance, and develops and recommends a strategic knowledge management plan that meets APRA's statutory requirements as well as recognised best practice standards.

Learning and Development Reference Group

The Group facilitates communication and consultation with staff on the development and implementation of the learning and development strategy.

Occupational Health and Safety Committee

The Committee focuses on issues to do with the health, safety and well-being of staff and ensures that these are integrated into broader management systems and practices.

Policy Steering Committee

The Committee's role is to provide advice to relevant Policy Research and Consulting Division staff on APRA's preferences for new policy information. It reviews the policy agenda and provides input to the Division's reports to the Executive Committee.

Performance and Reward Reference Group

The Group facilitates communication and consultation with staff on the development and implementation of APRA's performance management and reward system, and contributes ideas that promote a performance culture.

Staff Consultative Group

The Group facilitates communication and consultation with all APRA staff below the senior management level on the terms and conditions of

their employment (including the Human Resources Policy Manual) and the impact of these on APRA's organisational culture and values.

Statistics Steering Group

The Group provides guidance for this significant organisational resource, which strategically sets and agrees on the priority for statistics, which will be signed off by the Executive Committee. In addition, it is an advisory committee, providing support and advice to the Executive General Manager Policy Research and Consulting Division.

Environment Protection and Biodiversity Conservation Act 1999

Ecologically sustainable development and environmental performance

Under Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*, APRA is required to report on its contribution to ecologically sustainable development and other environmental matters.

In the Energy Use in Commonwealth Operations – Report for 2000/01, the Department of Industry Science and Resources shows that APRA decreased its per person energy usage from the previous year and is expected to achieve the DISR target of 10,000MJ/person in the year 2001/02.

APRA has taken practical steps to reduce energy consumption in its main tenancies, has installed zone-controlled lighting systems for after-hours use, and recycles printer cartridges, paper and cardboard.

Fraud control

The Chief Executive Officer of APRA certifies that he is satisfied that:

- fraud risk assessments and fraud control plans have been prepared that comply with the Commonwealth Fraud Control Guidelines;
- appropriate fraud prevention, detection, investigation and reporting procedures and processes are in place; and
- annual fraud data has been collected and reported that complies with the Commonwealth Fraud Control Guidelines.

Information on purpose and functions

See the Enabling legislation section on page 101 of this Report.

Occupational Health and Safety (Commonwealth Employment) Act 1991

Details of investigations and other matters as prescribed

The following information is presented in accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (OH&S Act).

In terms of compliance with the OH&S Act, there were:

- no investigations conducted during the year that related to undertakings carried on by APRA;
- no tests conducted on any plant, substance or thing in the course of such investigations;
- no directions to APRA by an investigator that the workplace not be disturbed; and
- no prohibition or improvements and provisional notices were given to APRA.



Measures taken to ensure health, safety and welfare of employees and contractors

Responsibilities imposed by the legislation were identified and allocated to individual staff members. This includes the identification and training of health and safety staff representatives at all work locations.

Procedures for dealing with health and safety issues are published on APRA's intranet site and included in induction programs.

There has been development of policy and procedures to identify, assess and control hazards associated with work processes, particularly computer-based work. An ergonomic consultant has been introduced to assist the process.

We have provided first aid services for the treatment of work-related injury or illness, including appropriately trained first aid officers, at all work locations. Rehabilitation services and support are provided to injured employees with ongoing consultation for affected employees.

OH&S policies including agreement with employees, establishment of committees and selection of health and safety representatives

Arrangements for consultation on all OH&S issues were undertaken, including the establishment of an OH&S committee with five staff representatives and five management representatives.

The OH&S committee satisfies all the requirements of the legislation, including meeting at least every three months and providing all staff with access to minutes of the meetings.

Statistics requiring the giving of notice under section 68

During the year, six incidents were notified to APRA, none of which required a report to Comcare in accordance with section 68 of the OH&S Act. The incidents were in the following locations:

Location	Number
On APRA premises	4
Home to work/work to home	1
Other	1
Total	6

Prime Minister and Cabinet Guidelines

Commonwealth disability strategy

APRA is reviewing its adherence to the Commonwealth's Disability Strategy both as an employer and as a provider, principally of information and, to a more limited extent, services to the public.

Over the next 12 months, APRA will continue to ensure that there are no obstacles to those with disabilities contained in our employment practices and procedures and public access to information through APRA's distribution channel, the internet. For those services that are not provided electronically (particularly, early release of superannuation benefits), we are continually examining our service delivery to ensure that particular groups are not excluded either by virtue of financial circumstance or physical or intellectual disability.



Consultancies

APRA's policy on procurement includes specific provisions on consultants and contractors. Considerations prior to engagement include whether in-house resources are available and the cost effectiveness of the operation; and whether the project is essential; availability of funds; selection and evaluation process resulting in fair competition; effective services and value for money; project definition and outcomes; and superannuation implications.

The main purpose for which consultants were engaged were: audit services; training; financial and accounting services; IT consultancies; legal advice;

litigation services; management consultancy; recruitment selection, administration and outplacement and counselling; and professional services.

The total number of consultants engaged was 106 and the total amount paid was \$8.2 million.

Performance pay

APRA has a performance bonus system, designed in consultation with staff and management and covering all employees. For 2001/02, the aggregate bonus pool was just under \$1.5 million (as in the previous year). Bonuses were paid early in July 2002.

Staff statistics

Staff by division and full time/part time as at 30 June 2002

Division	Full Time	Part Time	Total
Corporate Services	65	5	70
Diversified Institutions	57	5	62
Policy, Research and Consulting	79	2	81
Specialised Institutions	188	23	211
Total	389	35	424

Staff by location and full time/part time as at 30 June 2002

Location	Full Time	Part Time	Total
Adelaide	7	0	7
Brisbane	19	0	19
Canberra	28	18	46
Melbourne	61	3	64
Perth	8	0	8
Sydney	266	14	280
Total	389	35	424

Organisational chart

Australian Prudential Regulation Authority



BOARD

Jeffrey Carmichael (Chair),
Graeme Thompson, Rod Atfield, Berna Collier,
David Knox, John Laker, Ian Macfarlane,
Don Mercer and Marian Micalizzi.

*Risk Management and
Audit Committee*

CEO

Graeme Thompson

Company Secretary
Thea Rosenbaum

Executive General Manager
Diversified Institutions
Tom Karp

Executive General Manager
Specialised Institutions
Brandon Khoo*

Executive General Manager
Policy, Research and
Consulting
Charles Littrell

Head of Public Affairs
Susan Morey

General Manager
Branch 1
**Senthamangalam
Venkatramani**

General Manager
Rehabilitation and
Enforcement
Darryl Roberts**

General Manager
Policy Development
and Statistics
Greg Brunner

Chief Financial Officer
Jim Flaye

General Manager
Branch 2
David Lewis

General Manager
Central Region
(tba)

General Manager
Risk Analysis
and Research
Wayne Byres

General Manager
Human Resources
Peter Vodicka

General Manager
Branch 3
Mark Baxter

General Manager
Northern Region
Puay Sim***

General Manager
Consulting Services
Graham Johnson

Chief Information Officer
Colin Cayless

General Manager
Branch 4
Keith Chapman

General Manager
South West Region
Stephen Glenfield

General Counsel
Chris Fogarty

General Manager
Technical Advice
and Support
Helen Martin

General Manager
Risk Assessment and
Internal Audit
Peter O'Callaghan

General Manager
Quality Assurance
and Consistency
John Doble

*Les Phelps retired on 16 August 2002

**Bill Gole retired on 4 October 2002

***Puay Sim was appointed on 13 September 2002

Directory



Info Line: 1300 131 060
Website: www.apra.gov.au
Email: APRAinfo@apra.gov.au

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Level 26, 400 George Street
Sydney NSW 2000
GPO Box 9836, Sydney NSW 2001
Tel: 02 9210 3000 Fax: 02 9210 3411

Other offices

Adelaide

Level 5, Allianz Centre
100 Pirie St
Adelaide SA 5000
GPO Box 9836, Adelaide SA 5001
Tel: 08 8235 3200 Fax: 08 8232 5180

Brisbane

Level 23, 300 Queen Street
Brisbane QLD 4000
GPO Box 9836, Brisbane QLD 4001
Tel: 07 3001 8500 Fax: 07 3001 8501

Canberra

Level 2, 243-251 Northbourne Avenue
Lyneham ACT 2602
GPO Box 9836, Canberra ACT 2601
Tel: 1300 131 060 Fax: 02 6213 5307

Melbourne

Level 21, Casselden Place
2 Lonsdale Street
Melbourne VIC 3000
GPO Box 9836, Melbourne VIC 3001
Tel: 03 9246 7500 Fax: 03 9663 5085

Perth

Level 9, QV.1 Building
250 St Georges Terrace
Perth WA 6000
GPO Box 9836, Perth WA 6001
Tel: 08 9481 8266 Fax: 08 9481 8142

