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David Gonski
Chairman
Chifley Tower
2 Chifley Square
Sydney NSW 2000

Dear David,

KPMG response to written question asked by a member of ANZ for the 2019 Annual General Meeting

The Corporations Act 2001 offers members an opportunity to submit written questions to the auditor prior to the AGM on: (a) the content of the auditor's report to be considered at the AGM; or (b) the conduct of the audit of the annual financial report to be considered at the AGM.

In our view, some of the questions submitted to us are not relevant to (a) and (b) above. Whilst we are not legally required to respond to such questions, in the interests of transparency we offer the following comments.

Firstly we set out some background on the audit process used to form our audit opinion on the financial report.

Management prepares the financial report in accordance with the requirements of the Corporations Act 2001, the Australian Accounting Standards, the ASX listing rules and other regulatory requirements. The approval of the financial report is the responsibility of those charged with governance. The role of the auditor is to conduct an independent audit and to issue an independent auditor's report in accordance with the Corporations Act 2001.

In forming our opinion on the financial report, we comply with Australian Auditing Standards. In developing our approach we identify the business risks, internal controls and critical audit objectives expected to have a material impact on the financial report.

Our audit procedures are designed to test management's assertions regarding the financial report, including the operation of key internal control processes and procedures and other supporting evidence. Based on all audit work performed, we assess whether the financial report taken as a whole presents a true and fair view and is in compliance with the Corporations Act 2001, Australian Accounting Standards and the Corporations Regulations 2001.

Our audit procedures were designed to provide reasonable assurance whether the financial report is free of material misstatement, whether due to fraud or error. Our work was not carried out for the purpose of giving a separate opinion on the adequacy of internal controls over financial reporting or



on each caption of the financial report in isolation. Based on the results of our work we were able to issue an unmodified auditor's report on the financial report, as set out on page 211 of the company's annual report.

With that background, the following are additional comments in relation to the specific question asked ***"Is the auditor happy with ANZ's internal controls?"***

Those charged with governance are responsible for internal controls, corporate governance and risk management of all aspects of the company's operations. Our duties relate to the processes undertaken to produce the statutory financial report. Accordingly, those charged with governance should more appropriately deal with questions regarding the internal controls, corporate governance and risk management of the overall organisation.

Initially, we obtained an understanding of the internal controls over financial reporting sufficient to plan our audit and develop an effective audit approach. We then performed such tests of the design and operating effectiveness of relevant internal controls as we considered necessary to support our planned reliance on these controls. Relevant internal controls are those which are put in place to prevent or detect and correct a significant misstatement in the financial statements. We tested a sub-set of relevant internal controls based on our assessment of those which would provide the most effective audit evidence in the most efficient manner.

Based on the results of our tests of the design and operating effectiveness of internal control, we determined the nature, timing and extent of substantive procedures necessary to obtain sufficient, appropriate audit evidence to support our opinion on the financial report as a whole.

In our audit report, we have set out our Key Audit Matters (KAMs), which are those key areas on which we spend a significant amount of time in our audit. In our KAMs we have summarised the testing we carry out, including of internal controls over financial reporting. As members would expect, a significant part of our work is focused on assessing allowances for credit impairment and the valuations of financial instruments, including derivatives.

As a major Australian bank, ANZ is reliant on a significant number of IT systems and controls to process its very large number of transactions, many of which are highly complex. Our work is focused on those systems which are critical to the recording of transactions in the financial statements. Of the hundreds of systems which ANZ has for operational purposes, only a fraction are in scope for our audit. In our KAM we summarise our procedures, which include testing IT governance, user access management, change management, and specific functions and calculations within systems.

During the course of our audit, we do find exceptions where internal controls have failed. We respond to these depending on the nature and cause, and carry out additional procedures as we consider necessary, for example by increasing our substantive testing of who has had access to particular systems. We inform those charged with governance, Audit Committee and management about any material weaknesses relating to internal control which we identify during the course of our audit. The results of our procedures and our conclusion on the internal controls were such that we have been able to form an unmodified opinion on the financial report. However this does not



mean there are no additional matters that those charged with governance and management should be aware of in meeting their responsibilities.

We are, of course, aware of the increased scrutiny of the major banks, including through the Royal Commission into Misconduct in the Banking Industry, the APRA Prudential Enquiry into CBA, and of the significant remediation programmes underway to improve operational processes and compensate customers across the industry. When planning our procedures for the audit, we took into consideration the relevant risks to the bank's financial reporting processes. In our KAMs we have specifically addressed our heightened focus on internal controls over the completeness of remediation provisions. We have also considered whether the weaknesses in operational processes and controls which led to errors requiring remediation have a significant impact on financial reporting. Our focus, however, is on controls over financial reporting, and not on detailed operational processes where these are not considered likely to cause a material error or misstatement in the financial report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A M Kitchen', written in a cursive style.

Alison Kitchen

Partner