



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

**RESPONSE TO THE CONSULTATION PAPER ON
VALIDATION PROGRAMME:
DIFFERENTIAL PREMIUM SYSTEMS AND
TOTAL INSURED DEPOSITS**

ISSUE DATE : 20 APRIL 2009



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| Ref No | DI/CP7-R/2009 | Issued on | 20 April 2009 |
| TITLE | Response to the Consultation Paper on Validation Programme: Differential Premium Systems and Total Insured Deposits | | |

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BACKGROUND

1. PIDM issued a consultation paper on the Validation Programme: Differential Premium Systems (DPS) and Total Insured Deposits (TID) for public consultation on 11 August 2008. Comments were received from member institutions (MIs), Bank Negara Malaysia and external auditors during the one-month consultation period ending 12 September 2008. As part of the consultation process, PIDM will disclose the summary of comments received and its responses on the comments.

OVERVIEW OF COMMENTS RECEIVED

2. A significant majority of respondents supported the validation programme in ensuring the accuracy of the recording of transactions and compilation of information in DPS Reporting Form and Return on TID (RTID). The majority of comments received were related to further enhancing the proposed validation programme and we thank respondents for their suggestions.
3. The vast majority of respondents agreed that the MIs' reporting forms i.e. RTID and DPS Reporting Form are subjected to validation by MIs' external auditors pursuant to the Section 3 of the validation programme. They also agreed with the proposed work programme (Agreed Upon Procedures) for TID such as validation of FISS RDAL as well as the validation of RTID.
4. After assessing the specific suggestions received in the context of the Malaysian banking system, the following areas are incorporated into the finalised validation programme:
 - a. Submission Deadline
 - The existing submission deadline for DPS and TID will be retained as **30 April** and **31 May** respectively. The existing submission date for RTID is sufficient to allow for MIs to process the beneficiary data.
 - MIs are exempted from the requirement of providing the validation report for assessment year 2008. For the transition year 2009, the validation report will be due for submission to PIDM by **30 November 2009**. Thereafter the validation report shall be due for submission to PIDM by **31 May** of each assessment year.

- MIs are required to submit a separate report containing detailed action plans and timelines to address the exceptions highlighted in the External Auditors (EA) validation report by **31 July** of each assessment year. For the transition period 2009, this report is due by **31 December 2009**.
- b. Reliance on work done under the statutory audit and involvement of internal auditors
- There would be certain parts of the Agreed-Upon Procedures (AUP) under the validation programme that is already performed as part of the statutory audit. As such, the validation process can be arranged to leverage on the statutory audit process. This should be discussed and agreed upon between the MIs and the external auditors.
 - PIDM proposed that the current AUP shall be performed by external auditors with reliance on work done by the internal auditors where relevant. In this respect, as expressed in the consultative paper, it remains as PIDM's stance for MIs' internal auditors to be involved in the validation process in order to be more efficient. The extent of the involvement of the internal auditors shall be agreed upon by MIs' senior management, the internal auditors and the external auditors with overall responsibility of the reporting remaining with the external auditors.
- c. The validation report is based on an AUP as set out by PIDM and is an engagement between the MIs and the external auditors. However, the external auditor is required to address directly their validation report to PIDM.
- d. All MIs' DPS Reporting Form and RTID shall be validated by the MIs' external auditors pursuant to the Validation Programme.
- e. It is the responsibility of MIs' senior management to ensure that effective key compliance and controls have been maintained over the recording of transactions and accuracy of information compiled for the submission of DPS Reporting Form and RTID. Hence, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) will have to certify that the information submitted in the DPS Reporting Form and RTID are true and correct.

- f. The sample size for the testing of classification and aging of loans under DPS work programme shall be determined by the external auditors in consultation with MIs' senior management subject to the minimum samples as follows:

| Number of Branches in a MI | Minimum of Branches to be selected | Sample size to be covered per branch |
|----------------------------|------------------------------------|--------------------------------------|
| 1 – 5 | 1 | 50 |
| 6 – 50 | 5 | 50 |
| 51 – 100 | 10 | 50 |
| > 100 | 15 | 50 |

5. PIDM has also considered other suggestions such as the need to set a materiality threshold for reporting exceptions and has decided to maintain the proposals unchanged on the grounds that all findings shall be reported regardless of its materiality level.
6. The detailed comments and responses are attached in **Appendix 1**.

MOVING FORWARD

7. PIDM appreciates the comments received in response to its consultation paper. We have incorporated the above noted changes into the guidelines. The guidelines will be issued to MIs for implementation and will be available to the public through PIDM's website.



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Appendix 1

| Topic and Issues | Comments Received | PIDM's Responses |
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| <p>Reporting Requirements</p> <p>2.1 All MIs shall by 30 April, be required to submit information of an assessment year to PIDM for purposes of computing premiums in the pre-formatted forms as follows:</p> <p>(a) Return on TID; and (b) DPS Reporting Form.</p> | <p>Timing of Submission</p> <p>Proposals:</p> <p>1. We propose the current deadlines for submission be retained and that the external auditor's validation be set to 30 June to avoid overlapping the submission of income tax return to the Inland Revenue Board, the financial statements to BNM, etc.</p> <p>2. We propose mid May for the submission timeline for the validation programme which will leave ample buffer for the final payment of the premium due on 31 May each year.</p> | <p>Noted. The submission date for the RTID shall remain unchanged at 31 May to allow ample time for its preparation. The submission of DPS Reporting Form is at 30 April.</p> <p>The EA validation reports shall be submitted to PIDM by 31 May. This will provide sufficient time for the external auditors to review the preparation and submission of the DPS Reporting Form and RTID.</p> |
| <p>Reporting Requirements</p> <p>2.2 MIs are required to complete the submission based on information obtained from the FISS reports and/or the audited financial statements and any other relevant documents as at 31 December of the preceding assessment year.</p> <p>Where relevant, for MIs whose financial year does not end on 31 December, the submission shall be based on information obtained from the FISS</p> | <p>1. We would like to suggest that PIDM allows the external auditors to consider the Internal Auditor's report, where it is relevant. This approach will be more efficient and also save time and money.</p> <p>2. We feel that the inputs for the DPS Reporting Form should only be based on the audited GP8 financial statements instead of BNM FISS returns. This is given the fact that the reporting in the GP8 financial</p> | <p>PIDM encourages the involvement of internal auditors in contributing to the external auditor's validation process which may result in time and cost savings. Nevertheless, MIs would have to discuss with their external auditors about this arrangement when engaging them.</p> <p>As explained in the footnote to page 16 of the consultative paper, where there are discrepancies between FISS reports and audited financial statement/approved management</p> |



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| <p>reports and Management Accounts approved by the Board for the calendar year end of 31 December of the preceding assessment year. In preparing the submission information, the following shall be considered:</p> <p>(a) Ascertain adequate cut-offs and accruals of income and expense are included in the approved Management Accounts for the calendar year end 31 December.</p> <p>(b) Change in accounting policies or adoption of new accounting standards coming into effect during the calendar year have been properly reflected in the approved Management Accounts, inclusive of any prior years' impact.</p> | <p>statements is audited, consistent and transparent amongst all banks in Malaysia as opposed to the BNM FISS, the reporting lines may be subjected to different interpretation amongst different banks.</p> <p>Absence of management report The bank's fiscal year-end is October 31. Therefore, management reports are off by a month's delay. We recommend FISS report be used as a management report.</p> | <p>accounts, the latter shall prevail. This statement shall be worded clearly in section 2 of the Validation Programme.</p> <p>In addition, on paragraph 6.1.1 of the DPS Guidelines, the following has been stated:</p> <p>In the event that the information reported under FISS differs with the information in the audited or validated financial statement, MIs are required to report the audited or validated financial information. MIs are also required to provide explanation and reconciliation for the differences in the information. These differences maybe due to several factors including reporting of only domestic operations in the FISS database while MIs' audited or validated financial statements include information of overseas operations.</p> <p>MIs are required to make the necessary adjustments to the management reports such that the information reflects MIs' position from 1 January to 31 December. As stated, where there are discrepancies between FISS reports and audited financial statement/approved management accounts, the latter shall prevail.</p> |



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| | <p>Inclusion of Changes to the Audited Financial Year End (FYE) We recommend that PIDM allows for the inclusion of changes to the audited FYE accounts but not to the Management Accounts based on the current practice and requirements.</p> <p>Surcharge We seek clarification as to whether MIs be subjected to surcharge if other related parties are not in compliance with the guidelines e.g. external auditor sends their report later than 30 April.</p> | <p>As required under the DPS regulations, for MIs with non 31-Dec FYE, the DPS submission shall be based on approved management accounts with reference period from 1 January to 31 December. Hence, adjustments due to accounting policies or adoption of new accounting standards shall be reflected in the approved management accounts.</p> <p>As stated in Section 85 of PIDM Act, any person who prepares, approves, concurs in or signs any account, return, report, statement or other document, required for submission to PIDM, that he or she knows or has reason to believe is false or contains false or misleading information, commits an offence punishable by fine and/or imprisonment.</p> |
| <p>Reporting Requirements 2.4 The submitted reporting forms must be certified by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the MIs to be accurate and reflective of the financial position of the MIs as at 31 December of the preceding assessment year, prior to submitting to PIDM. Please refer to Appendix II A.</p> | <p>CEO / CFO Certification The CEO and CFO are required jointly to certify that the information in the DPS and TID reports are true and correct whilst the external auditors are merely required to state that there are no exceptions should they not find any discrepancies between the DPS and TID figures and the financial records of the MI. In the case where there are discrepancies detected by the auditors, they are to list down the exceptions in their report and state whether these exceptions have been corrected prior to the submission or have been left unadjusted until such time they are rectified later. We find the CEO/CFO</p> | <p>It is the responsibility of MIs' senior management to ensure that effective key compliance and controls have been maintained over the recording of transactions and accuracy of information compiled for the submission of DPS and TID returns. Hence, the CEO and CFO will have to certify that the information submitted in the DPS Reporting Form and RTID are true and correct.</p> |



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| | certification that the figures are true and correct to be excessively onerous and incongruous with the certification required of the auditors. | |
| <p>Reporting Requirements</p> <p>2.5 The MIs' reporting forms above are subject to validation by the MIs' external auditor pursuant to the Validation Programme set out under Section 3 of this document. The MIs' external auditor must submit an independent report to PIDM (see Section 3 for further details).</p> | <p>External Auditor Independent Validation</p> <ol style="list-style-type: none"> PIDM will need to be a party to the engagement in order for external auditors to address their report to PIDM. PIDM should consider more active involvement of the internal auditors and be specific with the procedures that internal auditors should perform. | <p>As previously identified: The validation report is an Agreed Upon Procedure (AUP) engagement. Under the auditing guidance for AUP, the auditor and the client should agree on the terms of engagement - with such agreement being recorded in an engagement letter. As such, MIs being the requestor of the service, can stipulate the requirement that the report be addressed to PIDM and this can be documented in the engagement letter.</p> <p>Noted. It has always been PIDM's recommendation for internal auditors to be involved in the validation process in order to manage cost. This is clearly stated in the consultative paper. The extent of the involvement of the internal auditors, can be agreed by MIs' management, the internal auditors and the external auditors (with overall responsibility of the reporting remaining with EA). During the earlier discussion with the MIs' internal auditors to discuss about the involvement in the validation of DPS and TID, there was a general objection by the internal</p> |



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| | <p>3. Under the current submission requirement the RTID must be validated by the MIs' Chief Internal Auditor (CIA) and certified by the CEO. However, under the consultative paper (CP), only the validation by External Auditor was mentioned. Hence, should the MIs take the CP to override the current requirements; we do not see an issue in meeting the submission deadline. However, if the validation requirement on the CIA is to remain, MIs may have challenges in meeting the 30 April deadline as we need both the external and internal auditors to perform their validation at the same time.</p> | <p>auditors on their involvement. Therefore, PIDM has now left the decision on internal auditors' involvement to the senior management of MIs.</p> <p>The requirement for the CIA to certify the RTID has been changed to CEO and CFO in April 2008. The certification by the CEO and CFO shall remain for both DPS Reporting Form and RTID. With the implementation of the EA Validation guidelines, MIs' external auditors will be required to submit to PIDM a validation report on the MIs DPS Reporting Form RTID.</p> |
| <p>Reporting Requirements</p> <p>2.6 MIs are required to separately submit to PIDM by 31 May of each assessment year their detailed action plans and timelines on how to address the exceptions, if any, highlighted in the external auditor's report arising from the Validation Programme. This document shall provide affirmation and more specific description about management's action plans to address those exceptions as described in the external auditor's report.</p> | <p>Response to the External Auditor Findings</p> <p>Proposals:</p> <p>1. We recommend that PIDM allows us to include our responses (the detailed action plans and timelines) in the external auditors report sent by them to PIDM on 30 April.</p> | <p>The validation report prepared by the external auditors is an independent report that will be sent directly to PIDM and copied to the MIs. MIs would have to submit their detailed action plan and timelines on how the exception raised by the external auditors will be addressed. External auditors report would only include high-level action plans.</p> <p>As suggested in the consultative paper, the EA validation report will be addressed to PIDM directly and copied to the MIs.</p> |



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| | 2. We wish to recommend for a longer grace period of at least two months for the submission of detailed action plans and timelines to address the audit exceptions, if any. This will allow for sufficient time for respective MIs to devise the best course of action to address highlighted deficiencies, if any. | PIDM requires MIs to submit their detailed action plans and timelines on how to address the exceptions highlighted in the external auditors' report. The validation report shall be submitted to PIDM by end July of each assessment year, within 2 months from the submission of the EA validation report. |
| Validation Programme 3.1.4 The validation to be performed by the external auditors shall be carried out in accordance to AI4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information. | AI4400 Would like to seek clarification on whether this refers to Auditing Standards. To indicate the name of the standard associated with AI4400. | AI4400 is the Agreed Upon Procedures Regarding Financial Information. This is for auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. |
| Validation Programme 3.1.5 The external auditor is to thereafter provide PIDM with a report by 30 November 2008 for assessment year 2008 and thereafter by 30 April of each subsequent assessment year. | For Assessment Year 2008 We seek PIDM's consideration to defer the submission of external auditors' report for assessment year 2008 to PIDM to 31 December 2008 instead of by 30 November 2008. For Assessment Year 2009 and Thereafter The proposed date of 30 April for each subsequent assessment year is not practical to the MIs with FYE on 31 March as this is also the period when we have the statutory accounts audited with submission deadline to BNM by 30 April. Resource constraint in handling 2 separate sets of accounts with different cut-off periods by one common team would make it unmanageable in terms of achieving the set deadlines. | MIs will be exempted from submitting the EA validation report for assessment year 2008. The submission of DPS Reporting Form shall be on 30 April. The RTID and EA validation report (DPS and TID) shall be submitted on 31 May. During the transition year i.e. assessment year 2009, the EA validation report shall reach PIDM by 30 November 2009. |



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| | <p>Proposal: Suggest the submission date to PIDM to be one month later, i.e. by 31 May for those MIs with year end 31 March.</p> <p>Cost of EA Validation As it is in the interest of PIDM to have the financial numbers verified by the external auditors, perhaps it is fair that PIDM bears 50% of the audit fees annually charged by the external auditors. This would be similar to the approach taken by Cagamas Berhad. Please see paragraph 12 of the "Cagamas Loans and Debts Audit Guide" issued by Cagamas Berhad in July 2002.</p> <p>Assessment Year Would like to seek clarification on whether the assessment year 2008 reflects the report submitted by the MIs on 30 April 2008 for 2007 returns.</p> | <p>The cost of engaging the EA for the validation shall be borne by MIs and treated as part of cost of operations.</p> <p>The EA validation report for assessment year 2009 shall reflect the validation of the DPS Reporting Form and RTID submitted on 30 April 2009 and 31 May 2009, respectively.</p> |
| | <p>Timeframe for Updates / Changes to Implement Guidelines We would appreciate if ample time could be given to all MIs to implement changes to data extraction rules as our resources are limited.</p> | <p>The EA validation report is exempted for assessment year 2008, however for the assessment year 2009, we require the EA validation report to be submitted by 30 November 2009.</p> |
| | <p>Internal Auditors' Validation / Transition Year 1. In respect of the requirement for MIs to have their DPS Reporting Form and RTID figures validated by external auditors, we would like PIDM to reconsider</p> | <p>PIDM relies on the EA validation report to justify the accuracy and correctness of the premiums received from MIs to the Auditor General office.</p> |



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| | <p>allowing the MIs to use their own internal auditors for the said purpose.</p> <p>The Internal Audit departments of MIs have, in recent years been required to strengthen their oversight function in line with the emphasis on corporate governance by BNM. We feel that the Internal Audit department of the bank is independent and equally capable of performing the validation programme.</p> <p>2. As a concession to MIs, we also suggest that the requirement for external validation of the assessment year 2008 figures be done away since the returns have been submitted and the premiums paid in May this year. We think there is no value add to be gained from the transitional year validation for either PIDM or MIs and would certainly welcome its commencement in assessment year 2009 instead of assessment year 2008.</p> <p>Proposals:</p> <p>1. In this regard, we would like to propose that this new requirement to take effect from year of assessment 2009 instead of retrospective in 2008.</p> <p>2. We would like to propose for validation of Total Insured Deposit (TID) to be handled by Internal Auditors while Differential Premium Systems (DPS)</p> | <p>As such an independent validation is required for each assessment year.</p> <p>The requirement for MIs to submit the EA validation report for assessment year 2008 is exempted. For the transitional period assessment year 2009, MIs are required to submit the EA validation report by 30 November 2009.</p> <p>To ensure independence, the AUP under the validation programme shall be performed by external auditors. Where appropriate, subject</p> |



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| | is to be verified by External Auditors. Overall confirmation to be from External Auditors with reliance placed on Internal Auditor's validation programme for TID. This approach, we believe will help reduce substantially the cost to be incurred by MIs compared to if they were to engage External Auditors to cover the entire scope of both TID and DPS. | to the agreement between MIs and external auditors, work undertaken by internal auditors with regards to these agreed-upon procedures can be relied upon by external auditors. |
| Validation Programme 3.2.3 - Footnote 4 MIs' management and external auditors shall decide on the timing of the validation process and to manage costs, consider the involvement of the MIs' Internal Audit Function. | Reliance on the Statutory Audit Works To allow a provision for external auditors to take into account the work done for the financial audit as most information would have been covered under the audit of the financial statements. To include paragraph that ensure external auditors should use the work done for the financial statement audit as part of the validation programme. | There would be certain portions of the AUP that would have been performed as part of the statutory audit. The timing of performing the AUP could also coincide with the statutory audit finding. MIs should discuss with their external auditors about the coordination of statutory audit work and the validation programme such that common workflows can be leveraged. |
| Validation Programme 3.2.4 The validation over the Modules identified in 3.2.3 above shall be in accordance with the Agreed Upon Procedures Programme as set out in Appendix 1 and applied in the following manner: | Frequency of Review for Module 1 Proposal: We suggest the review of Module 1 to be conducted every 3 years except if there is any change to the system, which will require the review to be conducted yearly. | As Module 1 would already be covered by the external auditors during the annual statutory audit process, we envisage that the validation under Module 1 would not incur substantial additional work. |
| (a) Module 1: To be applied yearly starting from the assessment year 2009 with a focus on the validation of Loan Concentration and Ageing | Scope of Validation for those under Minimum Premium Payments Historically, the certain MIs' deposit level has been significantly lower than the threshold for the minimum premium required. | All MIs' DPS Reporting Form and RTID are subject to validation by the MIs' external auditors pursuant to the Validation Programme |



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| for DPS reporting | Proposal: We recommend the relaxation of validation process in such cases. | set out under Section 3 of this document. |
| Validation Programme 3.2.5: <i>Note</i> <i>*In the event of discrepancies between FISS reports and audited financial statements/approved Management Accounts, the latter shall prevail.</i> | Differences in FISS Report and Audited Financial Statement There will always be discrepancies between the two due to differences in classification. Please specify under what circumstances that the audited financial statements/management accounts shall prevail. | All item codes in the RTID and DPS reporting guidance refer to BNM's Guideline for Submission of FISS Reports. These item codes provide a source of reference to MIs in completing the submission. The FISS reports are to be used as a reference. In the event that the information reported under FISS differs with the information in the audited or validated financial statement, MIs are required to report the audited or validated financial information. |
| Validation Programme 3.2.6 - Footnote 6 In this connection, the MIs shall ensure that the engagement letter stipulates that the report should be addressed by the external auditors directly to PIDM. | External auditors to provide a copy of the report to the MIs. External auditors are to provide an audit opinion including all un-resolved exceptions for the 30 April submission to PIDM. | Yes. This is consistent with PIDM's requirements. |
| Appendix I: Validation Programme - Agreed Upon Procedures Planning (c) Obtain an understanding of business activities, systems, processes, procedures and management controls for completing the Reporting Forms, including: | Expression of Audit Opinion AUP may not incentivise MIs to undertake improvements in the governance process, internal controls and IT systems for the preparation of the submission as the approach which is based on specified scope of work, does not allow for reduction in the sampling or audit work. PIDM may wish to consider requiring for an expression of audit opinion stating the | From the feedback of the external auditors, the approach for the validation exercise would be on an AUP where specific audit work needs to be specified. The objective of the validation programme is to provide PIDM with an independent validation of the accuracy of financial information submitted in the RTID and |



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| <p>(i) Systems capability or other methods deployed in extracting reliable and adequate information for the preparation of the DPS Reporting Form (e.g. Loan System, loan tagging - concentration by sector, loan ageing) and the Return on TID (e.g. Deposit System, classification of deposit composition by type, ability to distinguish eligibility of deposits as insurable and uninsurable and ability to aggregate amounts in excess of RM60,000 per depositor).</p> <p>(ii) Availability and adherence to documented operational policies and procedures pertaining to the preparation and submission of the Reporting.</p> | <p>reasonableness of DPS reporting figures and their assessment of the internal controls of the MIs. This would facilitate the provision of incentives (e.g. exemption from annual validation for a specific period) to MIs with accurate submission to encourage them to improve their reporting systems.</p> | <p>DPS Reporting Form. As there are no applicable auditing guidelines in respect to work to be performed for purpose of giving an opinion on financial information, an AUP approach is adopted. Furthermore, currently there are no internal control framework guidelines for external auditors to rely on in Malaysia.</p> |
| <p>Appendix I – DPS: Work Programme Module 1 - Sample Selection Criteria</p> <p>1. Based on samples selected by applying sample selection criteria identified below, ascertain that classifications and ageing of loans are correctly recorded, by performing the following:</p> | <p>Samples selection criteria & Audit Fee</p> <p>1. We should let the external auditors evaluate the required coverage based on their assessment of the effectiveness of the internal controls of the individual MI and the CRR assigned by BNM as a guide. Moreover, most MIs have streamlined branch activities to focus on sales and service, where underwriting, credit admin, collections, and recoveries are all centralised. The sample size of 100 at each branch is too large. As the same banking system is applied at all</p> | <p>Senior management of MIs and external auditors shall discuss on the appropriate and plausible sample size to be tested for classification and aging of loans under the DPS work programme and subject to the minimum samples as required by PIDM.</p> <p>In the situation where loans are centrally underwritten, the number of samples shall continue to apply and the selection of loans</p> |



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|---|------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|-----------------------------|--------|-------|--------------|-----|-----|-----|--------|---|-----|---|---|----------|----|-----|---|---|-------|----|-----|----|----|---|---|
| <p>Sample selection criteria:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">No of Branches in a MI</th> <th rowspan="2">No of Branches to be selected</th> <th rowspan="2">Sample size to be covered per Branch</th> <th colspan="2">Basis of selecting Branches</th> </tr> <tr> <th>Mandatory *</th> <th>Random</th> </tr> </thead> <tbody> <tr> <td>1 - 5</td> <td>All Branches</td> <td>100</td> <td>All</td> <td>N/A</td> </tr> <tr> <td>6 - 50</td> <td>5</td> <td>100</td> <td>3</td> <td>2</td> </tr> <tr> <td>51 - 100</td> <td>10</td> <td>100</td> <td>5</td> <td>5</td> </tr> <tr> <td>> 100</td> <td>20</td> <td>100</td> <td>10</td> <td>10</td> </tr> </tbody> </table> | No of Branches in a MI | No of Branches to be selected | Sample size to be covered per Branch | Basis of selecting Branches | | Mandatory * | Random | 1 - 5 | All Branches | 100 | All | N/A | 6 - 50 | 5 | 100 | 3 | 2 | 51 - 100 | 10 | 100 | 5 | 5 | > 100 | 20 | 100 | 10 | 10 | <p>branches within a banking group, we are of the view that it is not necessary to perform the validation on such a large scale as it may not provide the incremental assurance that the system and reporting is accurate. As such, we would like to propose that the sample size be reduced accordingly to a more reasonable level.</p> <p>As the fee payable to the external auditors in connection with the validation programme is expected to be fairly substantial, we would like to suggest that such fee be borne equally by the MIs and PIDM.</p> <ol style="list-style-type: none"> 2. Suggest some flexibility on the samples selection criteria required as MIs residing on the lower end of 1 digit number of branches will be subjected to the same sampling size as an MI with 50 branches. One consideration will be to add an option to the effect that allows the external auditor to vary the sample selection criteria subject to the approval of PIDM. 3. Module 1 (pg 22) – PIDM needs to be specific as to the samples to be selected are by borrower or by facility. If by borrower, there is a high chance that the borrower will have several facilities with the Bank, and this will increase in the number of | <p>shall be based on where the loans were originated.</p> <p>The cost of engaging the EA for the validation shall be borne by MIs and treated as part of cost of operations. PIDM has provided MIs a transitional period for one year whereby scores were adjusted upward. This has resulted in MIs paying less premium. As the audit cost will be more onerous in the first year, the MIs have already benefited from lower premium payable to PIDM.</p> <p>Noted. Refer to facilities and not borrower. The sampled facilities will be on non-performing loans.</p> |
| No of Branches in a MI | | | | No of Branches to be selected | Sample size to be covered per Branch | Basis of selecting Branches | | | | | | | | | | | | | | | | | | | | | | | |
| | Mandatory * | Random | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 - 5 | All Branches | 100 | All | N/A | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 - 50 | 5 | 100 | 3 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 51 - 100 | 10 | 100 | 5 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | |
| > 100 | 20 | 100 | 10 | 10 | | | | | | | | | | | | | | | | | | | | | | | | | |



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| | <p>samples to be higher than 2000. If the sample is by facility, then, which type of facility will need to be specified clearly in the PIDM guideline (i.e. term loan, revolving credit, overdraft etc). These relate to the specified number of branches with the largest loan exposures. PIDM needs to clarify also whether the number of samples relating to performing and non-performing loans.</p> <p>4. We wish to recommend that the audit validation programme includes the flexibility for the external auditors to select samples without going by branch alone. Perhaps, the sample selection criteria can include other sampling methods, such as deposit type, i.e. saving deposit, current account deposit, fixed deposit and etc.</p> <p>Overall, we are of the view that the audit validation programme is generally too prescriptive and requires wide audit coverage for a deposit insurance return. As an alternative to promote better efficiency and effectiveness, we wish to propose that the audit validation programme be included as part of the external auditors' scope for the annual statutory financial year-end audit so that it could be left to the external auditors' professional judgement to assess their audit programme in accordance to their audit plan and methodology, preference, audit risk, scope and etc.</p> | <p>Not all banks have 31 December financial year end, hence, to include the validation programme as part of the statutory audit may not be appropriate for all MIs. Furthermore, the validation programme requires a report on the accuracy of the information submitted for DPS Reporting Form and RTID, however, a statutory audit opinion provides a true and fair view of the financial statements.</p> <p>External auditors have strong view that the validation programme be done via AUP, which does not result in an opinion but a report on findings.</p> |



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| | | There would be certain portions of the AUP that would have been performed as part of the statutory audit. The timing of performing the AUP could also coincide with the statutory audit finding. Discussion on such matters should be discussed between the MIs and external auditor. |
| | <p>Duplication of Sample</p> <p>The scope of Module 1 which focus on validation of sampled transactions from source into the General Ledger on DPS loan concentration and aging could be included as part of the external auditor's year-end audit scope. As our external auditors are already conducting sampling tests, by extending their samples to meet PIDM's requirement for loan concentration and aging, this could avoid duplication of another set of sample need to be selected in your proposed validation programme.</p> | <p>We encourage the use of work conducted in the statutory audit process which could be relied on in the conduct of the validation programme for the DPS and TID in order to reduce cost to MIs.</p> <p>There would be certain portions of the AUP that would have been performed as part of the statutory audit. The timing of performing the AUP could also coincide with the statutory audit finding.</p> |
| <p>Appendix I – DPS: Work Programme</p> <p>Module 2 – Validation of FISS Report – Extraction of Information</p> <p>1. Obtain the following FISS reports as 31 December:</p> <p>(a) Report on Audited Income and Expenditure ("RAIE");</p> <p>(b) Report of Domestic Assets and Liabilities ("RDAL");</p> <p>(c) Report of Global Assets and Capital ("RGAC"); and</p> | <p>Risk Weighted Capital Adequacy Framework ("RWCAF")</p> <p>Please note that effective 1 January 2008, in addition to RGAC report, we are also compiling a separate report known as Risk Weighted Capital Adequacy Framework ("RWCAF"). This report is submitted to BNM together with RGAC for the purpose of calculating the Basel II Capital requirement.</p> <p>Please confirm whether RWCAF report needs to be included in the paper and if yes, to reflect the same.</p> | <p>Noted. To amend accordingly.</p> |



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| <p>(d) Report on Assets Quality ("ROAQ").</p> <p>(Please note that there are many FISS lines within the above reports and not all the FISS lines are used to prepare the DPS Reporting.)</p> <p>The procedures in section 2 below are performed to ascertain that the components of the FISS lines are extracted from the General Ledger/ Sub Ledgers according to BNM's requirements on FISS reports.</p> | <p>Source of Report for Assessment Year 2009 Onwards</p> <p>Up to 31 December 2007, MIs were able to extract Total Risk Weighted Assets under Basel I from RGAC. From 1 January 2008, MIs that adopted Basel II under the Standardised Approach are only required to input minimal information (which excludes the Total Risk Weighted Assets) for reporting in RGAC. Therefore, the validation programme should clarify this point in the AUP for the external auditors from Year of Assessment 2009 onwards.</p> | Noted. To amend accordingly. |
| | <p>Scope of Module 2 and Audited Year-end Financial Statement</p> <p>The scope of Module 2 is too detailed and rigid. We would like to suggest that if the validation programme could be less descriptive in order for the external auditors to perform their own validation to meet PIDM's objectives.</p> | As the programme adopts an AUP, these require the audit programme to specify in detail the steps to be undertaken for Module 2. |
| | <p>Generation of Independent FISS Report</p> <p>The external auditors are required to generate an independent FISS report.</p> <ol style="list-style-type: none"> This is not within the existing scope of the auditors. Additional fees would be incurred by the MIs. The fees may substantial as it will involve them in extracting data from the various sub-systems as well as involvement of their IT team. Generate an independent FISS report that comprise of the Relevant FISS Lines. This would involve extraction of data ("extracted data") from the | The intention is for the external auditor to independently generate a FISS that comprise of the relevant FISS lines (used for the purpose of the DPS reporting), to ensure adherence to BNM Guidelines. |



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| | <p>General Ledger/Sub Ledgers systems that comprise the components that make up the Relevant FISS Lines (Use of data analytic tools such as Microsoft Excel or ACL may be required to sort the raw data downloaded General Ledger/Sub Ledger system into similar parameters as used for FISS reporting).</p> <p>3. It would be of value for the external auditor to understand and use query tools already in place at the MI.</p> | Noted. This should be an internal arrangement between external auditors and MIs |
| | <p>Some procedures are not Agreed Upon Procedures (AUP) There are certain procedures which are not exactly AUP-type procedures in accordance with AI4400. Typically, the procedures should be specific, not involving judgement and limited to the procedures such as comparing amounts, proving arithmetic accuracy, re-performing a specific procedure etc, amongst others i.e. we are also not in a position to "evaluate" the quantitative impact of our findings on the items in the DPS/TID reporting forms.</p> <p>Some procedures involve significant effort and time Certain procedures would involve significant amount of time and work to be performed including the involvement of our IT specialists and will be very costly to the MI.</p> <p>The need to involve internal auditors Therefore, there is a strong need for the involvement of</p> | <p>Work steps have been updated to reflect AUP.</p> <p>Agree. As spelt out in the consultative paper, senior management of MIs and external</p> |



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| | <p>internal auditors in respect of some of the above procedures so as to reduce the cost burden to the MIs.</p> <p>Potential delay in meeting deadlines set by PIDM Given the significant amount of time required to perform the procedures as mentioned above, and the time required for the MIs to compile and prepare the DPS Reporting Form and RTID, there is a strong likelihood that the annual 30 April deadline may not be met by the MIs.</p> <p>Applying a data analytical tool (e.g. Audit Command Language) to re-compute the ageing with loan history data extracts from the loan system. If this cannot be feasibly done, then it looks like ageing checking will need to be done manually and will take a considerable amount of time.</p> | <p>auditors should consider the areas internal auditors could assist in this validation process.</p> <p>The EA validation report shall be submitted to PIDM by 31 November 2009 for assessment year 2009 and by 31 May for the subsequent assessment years.</p> <p>The use of ACL may warrant additional time and effort in the first year. However, in the following years, this is expected to be more cost effective.</p> |
| | <p>Absence of Materiality or Threshold There is no mention of materiality or threshold amount in the consultative paper. Thus, all findings in the sample, regardless of volume and size, would be reported even though may not be significant.</p> <p>We propose that a materiality and a threshold value be defined and included.</p> | <p>We intend to be highlighted on every variation irrespective of the material level.</p> |
| <p>Appendix I – DPS: Work Programme Other Matters: Reporting – Exceptions and Reporting <i>Materiality and Threshold – External Auditor's Validation Programme</i></p> | <p>All exceptions have to be reported in the auditors' reports. To only report non-resolved exceptions to PIDM with the MIs' 30 April submission.</p> | |



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| | Suggest that the submission to PIDM on 30 April is inclusive of an audit opinion which includes un-resolved exceptions and the MIs action plans. | We intend to be highlighted on the status of all variations. |
| | Outside the Scope of External Auditors This is not within the existing scope of auditors. Additional fees would be incurred by the MIs. The fee may be substantial as it will involve them in extracting data from various sub-systems as well as involvement of IT. There is no sample selection criteria specified except for un-cleared items. | This process needs to be conducted in order to assess the accuracy of the TID submissions. |
| Appendix I – TID: Work Programme Work Programme TID – Module 2 Validation of Insurable Deposit Compilation <i>The external auditors are required to validate the insurable deposits by using data analytical tools</i> | Inconsistency in Aggregation Under Appendix 1 – TID, Clause (B) (ii) 3, does not permit a choice of allowing corporate accounts to be aggregated under Customer Identification Number (CIN). There is no consistency in the choice offered for aggregation. We propose that an option to be given to allow corporate accounts to be aggregated under CIN. | Noted. |
| Appendix II: Certification and Reports A. CEO/CFO Certification | Proposals: We would therefore suggest that the wordings in the CEO/CFO certification be amended to fall in line with the objective of the validation programme which is to ensure the DPS/TID figures are consistent and in agreement with those in the MIs' financial records. Specifically, we suggest the second paragraph in the certification which starts with " <i>We declare that all the information given in the Return on TID and the DPS Reporting Formis true and correct,</i> " be deleted | Noted and to be considered. |



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| | <p>and the first paragraph be amended as follows with the amendments in italics:</p> <p>These forms have been completed for submission to Perbadanan Insurans Deposit Malaysia in accordance with the Guidelines on Total Insured Deposits: Calculation<i>respectively so as to give a true and fair view of the insurable deposits for the 1 January to 31 December <year>.</i></p> <p>In addition, we suggest that the certification be signed off by the CFO instead of jointly with the CEO. By virtue of its position, the CFO is charged with the responsibility for the financial management of the company and his approval should be more than adequate for the purpose of certifying the consistency of the DPS/TID figures against the financial records of the MIs.</p> <p>Suggest to delete paragraph 3. To include the phrase'....<i>to the best of our/my knowledge is true and correct</i>'.</p> | Noted. |
| <p>Appendix II: Certification and Reports B. External Audit Report <i>The procedures that we performed do not constitute either an audit or a review made in accordance with Approved Standards on Auditing in Malaysia and, consequently we do not express any assurance on the information in the DPS Reporting Form and Return on TID of [Bank A] for the year 1 January to 31 December xx.</i></p> | <p>These paragraphs absolve the responsibility of the external auditors validating the submission figures.</p> <p>Suggest removing these paragraphs. The validation requirement should be in line with the validation requirements of other statutory bodies where the onus of validating the information submitted should be the MIs governed by standards stipulated by PIDM. The</p> | The senior management of the MIs is responsible for the accuracy and completeness of the information submitted in the DPS Reporting Form and RTID. |



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| <i>Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Approved Standards on Auditing in Malaysia, other matters might have come to our attention that would have been reported to you.</i> | external auditors are required as part of the engagement to provide an audit opinion on non-resolved exceptions. | The external auditor report will provide findings of the exceptions revealed from the validation process and the action plans that MIs plan to undertake. As the validation programme is conducted via an AUP no opinion will be expressed, rather a report on the findings shall be submitted. |