

ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD LIMITED
MINUTES OF THE 3rd MEETING OF THE SMSF AUDITOR INDEPENDENCE TASKFORCE
1 November 2012 10.00 – 11.00 AM
Teleconference

1. Present and Apologies

Present

Mr Channa Wijesinghe (Chairman), Mr Reece Agland, Mr Sharif Eldebs, Mr Robert Brown, Mr Graeme Colley (alternate for Ms Sharyn Long), Mr Paul Meredith, Mr Andrew Stringer, Ms Susan Orchard, Ms Shirley Schaefer, Ms Eva Tsahuridu (alternate for Mr Denis Pratt) and Ms Liz Westover

In Attendance

Ms Cath Mulcare (APESB Board member), Mr Craig Angove (ASIC Observer), Ms Larissa Evans (ATO Observer), Mr Keith Reilly, Mr Robert Nickel and Ms Margareth Lioe

Apologies

Ms Liz Giust

2. Minutes of Previous Meeting

The minutes of the 2nd SMSF Auditor Independence Taskforce meeting held on 21 August 2012 were accepted without amendment.

3. JAB SMSF Independence Guide

Ms Liz Westover introduced the second draft of the SMSF chapter of the JAB Independence Guide. Following the receipt of comments and feedback on the first draft of the JAB Independence Guide, Ms Westover informed the taskforce of the addition, removal and revision of text and scenarios in the second draft of the Guide, in particular to clarify the areas of referral fees, tax advice and the provision of financial advisory services.

Taskforce discussion on the JAB Independence Guide

- Overview

A taskforce member raised concern on the use of the words such as 'clarification' in this chapter to apply the independence requirements and framework in the SMSF context. The taskforce member suggested that the Independence Guide should provide guidance on the fundamental principles of APES 110 and not suggest prohibitions that may be inconsistent with APES 110. The taskforce member was of the view that the word 'clarification' implies prohibitions to Members which makes it inconsistent with the requirements of the Code and that rewording of the paragraph is desirable.

A taskforce member suggested that, should there be the need to go beyond APES 110, APESB will need to provide explanation as to the rationale behind the additional proposed standard or guidance. Should the taskforce agree that the JAB Independence Guide does not suffice, the taskforce will be tasked with providing recommendations to the Board of the way forward to minimise the independence gap.

- Self-Managed Superannuation Funds (SMSFs)

The taskforce discussed the extent to which the 'litmus' test on auditor's comfort to raise adverse findings to Clients supports the fundamental principles of APES 110. The taskforce was of the view that the inclusion of the 'litmus' test for auditors provides helpful guidance to inform the conduct of auditors. The 'litmus' test does not aim to prohibit members from performing audits; rather it serves to clarify when auditors must decide not to undertake a SMSF audit.

The taskforce discussed and suggested replacing the word 'challenging' with 'difficult' in order to express the view more directly and to avoid implying outright prohibitions of actions to Members. The taskforce was of the view that maintaining consistency with APES 110 was the utmost principle and that Members should not consider the JAB Independence Guide alone to provide guidance but should also refer to APES 110.

The taskforce also discussed the procedures necessary should additional standards and guidance be needed beyond the current capacity of APES 110. The Chairman further noted that registered company auditors are bound to comply with APES 110 regardless of their professional membership bodies. This is in accordance with ASA 102 that imposes legal requirements for non Members to wholly comply with APES 110.

- Example 1 – An auditor cannot audit an SMSF where they have also materially prepared the accounts for the SMSF (APES 110, Section 290.168)
- Example 2 – An auditor cannot audit an SMSF where their staff have prepared the accounts (APES 110, Section 290.162)

A taskforce member noted that Section 290.168 and 290.171 of the Code attempts to identify possible safeguards rather than impose prohibitions on Members. The taskforce was of the view that rewording of the examples is desirable to enhance understanding of the underlying principles and eliminate inconsistency between the JAB Independence Guide and the Code.

Another taskforce member raised a further concern on the applicability of the JAB Independence Guide to small practitioners. The taskforce member was of the view that the JAB Independence Guide is too generic and that it is more applicable to bigger firms.

4. Way Forward

The Chairman invited the taskforce to provide comments and feedback on the final draft of the JAB independence guide to APESB and Ms Westover by Wednesday 7 November 2012 in order for a draft to be presented to the Board at the 16 November Board meeting.

5. Closing of Meeting

The meeting was closed at 11 AM.