

AGENDA PAPER

Item Number: 11
Date of Meeting: 25 February 2013
Subject: SMSF Auditor Independence – Project Status Update

Action Required

For Information Only

Purpose

To update the Board on the current status of the SMSF Auditor Independence project and to obtain the Board's approval to expose for public comment the proposed AUST Paragraph to address *referral fees* in the SMSF context.

Background

In February 2009 the Government commissioned a review of the superannuation system in Australia. The purpose of the Super System Review (the Review) was to ensure the system has a sharper focus on operating in superfund members' best interests.

The Government's response to the Review findings, known as "Stronger Super", contains a number of reforms to increase the efficiency, strength and ease of use of the superannuation system and maximise retirement income for superfund members. It is expected that these reforms will result in an average fee reduction of up to 40% for superfund members.

As part of Stronger Super the Government intends to legislate that SMSF auditors must comply with APES 110 *Code of Ethics for Professional Accountants* (the Code) as a condition of registration and has requested that APESB develop guidance for SMSF auditors on how the Code applies in the SMSF context.

As the registered SMSF auditor regime is scheduled to commence from 1 July 2013 the relevant pronouncement or guidance needs to be finalised by that date. From February 2013 ASIC will commence registering SMSF auditors in readiness for the commencement date of 1 July 2013 of the proposed new regime. Thereafter ASIC will manage the SMSF auditor registrations and as a condition of registration the SMSF auditors will be required to comply with APES 110.

At the November 2011 meeting, the Board acknowledged the need to address this issue and agreed to establish a Taskforce to develop recommendations on a proposed approach for the Board's consideration.

Consideration of Issues

The taskforce was established in February 2012 and had its first meeting in March 2012. At the March 2012 meeting, Mr Andrew Stringer of ICAA advised that the Joint Accounting Bodies (JAB) will release a revised JAB Independence Guide which will address SMSF Independence issues. The Taskforce agreed that it would be useful to review this document before determining the next steps. As the government had also not released the final form of the super reforms it was agreed at the time to defer the next Taskforce meeting until the Government announcement was made and a draft of the JAB Independence Guide was available for the Taskforce's consideration.

In late June 2012 the government announced the final form of its reforms as well as the commencement date for the SMSF auditor registration process. At the second Taskforce meeting held on 21st August 2012, Liz Westover (ICAA) presented the draft JAB Independence Guide for the Taskforce's consideration.

Following the Taskforce's preliminary comments on the first JAB draft Independence Guide, JAB has considered the issues identified by the Taskforce and prepared the second draft of the SMSF chapter of the JAB Independence Guide. The second draft of the JAB Independence Guide was presented at the third Taskforce meeting on 1 November 2012.

Some of the specific issues identified by the Taskforce and addressed by JAB in their second draft are:

- Auditor providing accounting or bookkeeping services;
- Auditor providing other services such as investment advice or tax advice; and
- Referral fees.

Refer to the attached minutes for further details of the specific issues identified.

Technical staff reviewed the final version of the JAB Independence Guide – SMSF Chapter, which was approved by all three JAB members in January 2013. Technical staff drafted an AUST Paragraph on *referral fees* for inclusion in the Code under Paragraph 290.220 *Referral Fees – Relative Size*. This was circulated to the Taskforce for input and the version reflecting Taskforce commentary is presented for the Board's consideration.

Staff Recommendation

The Board note the progress on the SMSF Auditor Independence project and approve the exposure of the proposed AUST paragraph 290.220.1 on *referral fees* for public comment.

Material Presented

Attachment 10(a)	Final JAB Independence Guide – SMSF Chapter (confidential);
Attachment 10(b)	Draft AUST Paragraph 290.220.1;
Attachment 10(c)	Minutes of Taskforce meeting held on 1 November 2012; and
Attachment 10(d)	Summary of correspondence with ATO, ASIC and Treasury (confidential)

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