SMSF Auditors Association of Australia Ltd
ABN: 70 627 274 248 Email: admin@smsfaaa.com.au
Unit 1A, 267 - 277 Norton St Leichhardt NSW 2040
Tel: (02) 8315-7796

31st August 2021

Ms Jacinta Hanrahan

Senior Technical Director

Accounting Professional and Ethical Standards Board

Dear Ms Hanrahan,

RE: Proposed amendments to fee provisions of Independence Code

SMSF Auditors Association of Australia Ltd is a newly founded association for SMSF audit professionals. We were founded in July 2018 and, at the time of writing, have 600 financial members. Our members are solely comprised of ASIC approved SMSF Auditors. It is our estimation that our members assist over 600 accounting practices and have audited over 25,000 Self-Managed Superannuation Funds in the last twelve months.

The SMSF Auditors Association of Australia Ltd welcomes the opportunity to comment on the proposed amendments to fee provisions of Independence Code.

Yours faithfully,

Lina De Marco

President

Comments in relation to fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards).

The SMSF audit industry is currently undergoing a period of change unlike anything seen before. It is thought as many as one third of all SMSFs will need to change auditors under the new independence standards which is difficult during the current Covid19 restrictions. This change provides opportunities for audit firms to increase their workload, which will diminish any existing independence threats. However, it is also creating a market that is difficult to read in terms of determining where a firm might be positioned with regards to their expected independence. It would be prudent to allow the industry a period to adapt to the changes implemented on 1 July and to allow audit firms to determine how it has impacted workload before requiring further changes.

The SMSF Auditors Association of Australia do not support the direction of the proposed amendments.

1)We have concerns that the continual tampering with the current system, and the arbitrary nature of suggested limits threatens the viability of SMSF auditors.

Independence is a state that can be influenced by familiarity, self interest, self review, advocacy or intimidation. All these are dealt by the standards already. The purpose of standards are to provide guidance to professionals so they can accomplish their duties properly (with integrity) and in an ethical manner.

Now it appears that the standard setters' approach have shifted from guidance towards controlling the behaviour of auditors by imposing different variables as barriers in the real life audit engagement. This control may be treated, itself as interference in the overall independence of auditors.

The 20 per cent fee limit will disadvantage smaller firms in comparison to larger firms. There is no clear justification for choosing 20 per cent as a benchmark for referral fee dependency. Introducing the 20 per cent benchmark will create more hardship on smaller firms and it should be implemented after more consultation with the industry experts, particularly smaller SMSF Audit firms who are the backbone of the SMSF audit industry.

Additional administrative burden the proposed threshold causes, will add to costs for trustees which in turn will damage the SMSF Industry and reduce retirement savings unnecessarily.

As an association of SMSF auditors we understand SMSF auditors do need a limit, but it is too low. It will introduce even greater overheads, and uncertainty in SMSF industry.

Another factor is that it will increase costs in an industry that is already absorbing huge changes this year. Many SMSF Auditors are leaving the industry which will detrimentally affect the number of SMSF Auditors adding to the independence issues. The SMSF industry is seeing increasing funds annually yet our auditor numbers are reducing.

For new entrants, the impact can be difficult to manage. It creates a barrier for new auditors entering the industry.

As a new practice it will be difficult to meet this benchmark. For example, if you are planning on growing your firm, you would take on a new referral source even if it will represent more than 20% of your current workload because you plan on growing beyond the point where there is an independence issue. However, if it takes 3 to 5 years to achieve that growth and you need to incur costs for an appropriate reviewer over that time then it may be not commercially viable to take on that work. It is unlikely that the perfect sized referral accounting firm will come along and fit neatly into the required benchmarks. This will not make for a vibrant and healthy SMSF audit market, it will lean towards the larger audit firms controlling the market.

It would ease tensions on auditors if we are able to monitor percentages and eliminate threats we deem appropriate without the burden of complying to a strict 20% level.

Another consideration is that many audit firms are not exclusively audit practices. They offer other accounting and advisory services. Where the audit division is only a small part of the practice the level of fee dependence on the audit work is less. Although you may only have 2 or 3 accounting referrals the loss of audit fees may not be very significant to the practice. This would reduce independence issues so why should these firms have to further abide by the 20% benchmark.?

A blanket 20% figure also fails to consider the unique structure and potential diversity of fees for accountants which renders the 20% limit pointless as a standalone statistic.

For example, some principals/auditors separate their accounting and audit practices. The audit firm can be small in comparison to the accounting firm. Under this 20% limit it could appear that the auditor is unable to be independent because the company relies on the audit fees from a particular client. In reality, the accounting fees in the other company far outweigh the audit fees and render that particular audit client miniscule overall when we are combining the fee value of both practices.

Lastly why does it matter which accountant recommends the audit services? Auditors are engaged by the Trustees of the fund not by a referring accountant. The Trustee has the ultimate choice. What is the mischief done if 90% of our audits are referred by a single accountant?. As long as there is no reciprocal arrangement then what is the issue? New independence requirement were introduced to address the situation where the same firm does the accounting and then audits its own work. Surely this has been satisfactorily dealt with by the current independence requirements and no further restrictions should be necessary.

2) Given the circumstances created by COVID19 and that many SMSF auditors are restricted or in lockdown the timeframe for submissions is unacceptable.

The updated independence guide was released in May 2020, just as Covid was impacting Australia. Even now, large percentages of Australia are in lockdown or working with restrictions. This has impacted auditors' ability to appropriately market themselves and target new work sources. The only two options available to SMSF audit firms who don't currently meet the independence targets are to have an appropriate reviewer or increase their client base. Covid 19 has made it difficult to increase client base with most professional development occurring online and networking events being scarce. It would be beneficial to allow the industry more time, in a post-covid environment, to work towards the independence goal required by the new standard before imposing more restrictions.

In addition, the accounting and audit industry in general is under pressure with additional workload due to Covid 19 relief measures and staff working remotely. We feel the accounting and audit industry has not had enough time to adequately respond to this proposal. We request that further time is allowed for this to occur.