

Project Proposal – Development of SMSF Auditor Independence requirements based on the Independence requirements of APES 110

Introduction

To develop a pronouncement which stipulates auditor independence requirements in the SMSF context which are based on the independence requirements of APES 110 *Code of Ethics for Professional Accountants*.

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 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 members. It is expected that these reforms will result in an average fee reduction of up to 40% for members (Refer Stronger Super Information pack).

To implement such reforms an extensive consultative process was undertaken that involved the establishment of the Super Strong Peak Consultative Group. The aim of this group was to advise on how to implement reforms while ensuring a consistent, integrated approach in respect of the following key elements of the reforms:

- Introduction of *MySuper* ;
- Making everyday transactions easier and faster through *SuperStream* package of measures;
- Clearer duties for directors and other measures to improve governance and integrity of the superannuation system; and
- Improved integrity and increased community confidence in the self managed superannuation fund sector.

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 will request the APESB to develop guidance for SMSF auditors on how the Code applies in the SMSF context (Refer page 17 and 18 of Stronger Super Information pack).

As SMSF auditor registration is planned to commence from 1 July 2012 the relevant pronouncement developed by the APESB needs to be finalised by July 2012. Thereafter ASIC will manage the SMSF auditor registrations and as a condition of registration the SMSF auditors will be required to comply with the relevant pronouncement developed by APESB.

Structural Issues to Consider:

The Board needs to consider the most appropriate structure for the pronouncement. The following potential structures have been considered by technical staff and are presented for the Board's consideration:

1.	APESB Standard	The creation of a standard introduces requirements and potential guidance to clarify independence requirements. There is also the benefit of SMSF auditors referring to this shorter pronouncement in a relatively short time frame, (alleviating potential budgetary constraints) than APES 110. The drawback with this approach is that SMSF auditors may tend to avoid reading the Code altogether, placing reliance on this proposed new standard. This may be contrary to the government's intentions of using the principles in APES 110 as the basis of the auditor independence requirements.
2.	APESB Guidance Note	A guidance note is considered unfavourable due to the very nature of it being guidance with no ability to stipulate mandatory requirements.
3.	Incorporate specific SMSF provisions in the existing APES 110 as AUST. Paragraphs.	Incorporation of specific SMSF related provisions into the Code allows the requirements to be better understood and encourages SMSF auditors to read the Code and its contents. This appears to be the best approach given the Governments' requirements. However, it is acknowledged that the Code is a long document which may present difficulties for SMSF auditors that are operating on small budgets. Whilst this is a valid point, it may be argued that SMSF auditors would require an initial time investment to understand the independence requirements of the Code and thereafter it is the similar requirements for each SMSF audit engagement.

Project Objective: To develop a pronouncement that specify requirements/guidance for SMSF auditors on how APES 110 *Code of Ethics for Professional Accountants* applies in the SMSF context.

Project Steps:

- Board decision on the most appropriate structure and format for the proposed pronouncement.
- Assemble task force which will consist of the APESB Technical Director, 1 representative from each of the professional bodies and up to 3 members with demonstrated expertise in the audit of Self Managed Superannuation Funds.
- APESB Board member Cath Mulcare and an ASIC representative will be observers at the taskforce meetings.
- Conduct task force meetings between December 2011 and March 2012 to identify and discuss the approach to be taken in developing the exposure draft.
- Develop an exposure draft for the Board review that addresses key issues and provides sufficient guidance on the application of the Code for SMSF auditors.

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- Present exposure draft to the APES Board for approval at a Board meeting in March or April 2012.
 - Release the proposed pronouncement for public comment for a period of 30 – 45 days.
 - Consider respondents' comments and their impact on the exposure draft and amend as required.
 - Prepare a basis of conclusions document detailing key issues that were identified and considered during the development of the pronouncement.
 - Present the final pronouncement and basis of conclusions document to the Board for approval at the May 2012 Board meeting.
 - Release the pronouncement in June 2012 and upload the pronouncement and basis of conclusions document onto the APESB website.

Project Structure:

- APES Board – provide feedback and oversee development of the pronouncement
- APESB Technical Director – assemble task force, provide technical support, role of principal drafting editor of the pronouncement, provide guidance to the task force on APESB policies and procedures
- Task Force – provide APESB with advice on development and review of pronouncement
- APESB Secretariat – provide administrative support to the taskforce

Resource Requirements:

- Teleconference facilities, Travel of APESB staff (as required) and taskforce members (by invitation only), printing and stationary.
- It is estimated that the staff time on this project will be approximately 2- 3 weeks.
- Budgeted taskforce costs for 6 taskforce meetings:

Conference calls \$300 per unit	\$1,800
Travel & accommodation \$1,000 per unit	\$4,000
Sundry expenses \$200 per unit	\$800
Total Budgeted Costs	\$6,600

Timeline:

Nov 2011	Approve project proposal
Dec 2011	Assemble task force
Dec 2011	Conduct initial task force meeting

Dec 2011 – Mar 2012	Develop exposure draft
Mar/Apr 2012	Present exposure draft to Board for approval
Mar/Apr 2012	Release exposure draft for a 30-45 day comment period
Apr/May 2012	Collate feedback received
May 2012	Revise pronouncement taking into consideration feedback received and prepare basis of conclusions
May 2012	Present final pronouncement and basis of conclusions to Board for approval
June 2012	Issue pronouncement

Impact on other APESB pronouncements

The proposed pronouncement is primarily going to impact on APES 110 *Code of Ethics for Professional Accountants*.

Impact on accounting, auditing or other relevant standards

No impact on accounting, auditing or other standards.

Related legislative developments

As discussed in the background above, legislative changes have driven the need for this proposed pronouncement.

Related international developments

There are no international developments that are likely to impact on this pronouncement.

Benefits of developing the pronouncement

Development of a pronouncement will contribute towards the establishment of an improved auditor independence regime in respect of the SMSF sector and assist ASIC with the registration requirements of SMSF auditors.