

**Jacinta Hanrahan**

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**From:** Katrina Fletcher [REDACTED] >  
**Sent:** Thursday, 21 April 2022 4:43 PM  
**To:** Jacinta Hanrahan  
**Cc:** naom [REDACTED]  
**Subject:** RE: Re-exposure of referral source dependency provisions  
**Attachments:** ASQM 2 extract performance of the engagement quality review.pdf

Hi Jacinta

In relation to the further feedback required by 29<sup>th</sup> April, and further your meeting with the group of audit firms recently on this, Naomi and I would like to request clearer guidelines on the situation in relation to the 30% / 5 year fee dependency actions to be taken by the firm

To recap:

So basically, looking at the proposed revisions, in a situation where for 5 years running total fees from audit clients comprise more than 30% of total fees (re engagement partner, office or firm), there are 3 possible actions that can be taken as possible safeguard to reduce independence threats to a suitable level:

- Arrange a review by an appropriate reviewer re 5<sup>th</sup> year work as per APES 110 Aust 410.14 A7 (screenshot below - pretty open ended)
- Arrange a review of 5<sup>th</sup> year work as per ASQM 2 (compliance standard updated in 2021, relevant section attached - again fair bit of discretion)
- Arrange for a compliance engagement regarding 5<sup>th</sup> year work (engagement would be conducted per ASAE 3100 - nothing new here).

Fallout:

Under any of these options, it looks like a fair bit is left to reviewer discretion re selection of jobs/number of jobs for review/audit. Reading between the lines, this should mean the reviewer (or engagement partner re 3<sup>rd</sup> option) should have a free hand in conducting the review or audit and requirements are based on characteristics of firm under review. Which sounds good, but there isn't a clear rule of thumb so we're probably going to see just about anything in terms of job selection.

*So it would be good if the type of review could be spelt out clearer. For the firm being reviewed itself and the appropriate reviewer too.*

*The ATO have some information on their website regarding an appropriate reviewers*

*[https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Auditor-Independence/?page=5#Appropriate\\_reviewer\\_requirements](https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Auditor-Independence/?page=5#Appropriate_reviewer_requirements). A sampling approach is mentioned however this is not clearly stepped out. Also what we are to do with the audit findings if asked to be an appropriate reviewer?. ie do we provide a copy of the findings and audit report to the firm being reviewed and the sampling methodology, or part of the audit file to that firm. In what situations do we report breaches of the particular framework to the ATO? What do we do if we find significant breaches of standards?*

**410.14 A7** Examples of actions that might be safeguards to address such self-interest threats include:

- Having an appropriate reviewer who was not involved in the Audit review the audit work.
- Ensuring that the compensation of the partner is not significantly inflated fees generated from the client.
- Reducing the extent of services other than audit provided by the partner the Audit Client.
- Increasing the client base of the partner or the Office to reduce dependence on the Audit Client.

Kind Regards ...

*Katrina Fletcher*

B. Bus C.A. Adv. Dip. FS (Financial Planning) SSA, SSAud.

SMSF Specialist Auditor™

SMSF Specialist Advisor™

Registered SMSF Auditor (ASIC)



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Kempsey Office - Suite 2, 29 Tozer Street (PO Box 3552)  
West Kempsey 2440  
0265626551

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## Attachment

The attachment to this email was an extract of paragraphs 22 to 29 of Auditing Standard ASQM 2 *Engagement Quality Reviews*.

**From:** Jacinta Hanrahan <[jacinta.hanrahan@apesb.org.au](mailto:jacinta.hanrahan@apesb.org.au)>  
**Sent:** Friday, 22 April 2022 9:46 AM  
**To:** Katrina Fletcher [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** RE: Re-exposure of referral source dependency provisions

Hi Katrina and Naomi,

Thank you for providing this feedback in relation to the revised proposals for the referral source dependency provisions.

Just a question in relation to the three options as to the engagement that is performed. Do you have a preference for one of the options over the other, or do you think all three should be included in the Code?

Warm regards

Jacinta

**Jacinta Hanrahan**  
**Principal**

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**Work days:** Monday, Tuesday, Thursday and Friday

**Accounting Professional & Ethical Standards Board**

Level 11, 99 William Street, Melbourne, Vic, 3000

Tel: 61 (3) 9642 4397 Fax: 61 (3) 9670 5611

Email: [jacinta.hanrahan@apesb.org.au](mailto:jacinta.hanrahan@apesb.org.au)

Website: [www.apesb.org.au](http://www.apesb.org.au)

**Jacinta Hanrahan**

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**From:** Naomi Kewley [REDACTED]  
**Sent:** Tuesday, 26 April 2022 10:46 AM  
**To:** Jacinta Hanrahan  
**Cc:** Katrina Fletcher  
**Subject:** Re: Re-exposure of referral source dependency provisions

Hi Jacinta,  
 Katrina & I had a chat re this over the weekend. Please see below and let us know if any questions

**OPTIONS:**

We feel there is a place for both the audit and review safeguard.

We're not sure though why it's necessary to include two review alternatives (ie appropriate reviewer per APES 110 Aust 410.14 A7 and review per ASQM 2). Is there a reason for both or would the review per ASQM 2 cover it?)

We suggest the audit option be included with at least one review option.

**SUGGESTIONS TO CLARIFY A FEW THINGS:**

A couple of questions regarding the safeguard options –

**The audit safeguard**

Obviously obtaining a compliance audit opinion is a more robust safeguard than having a review performed under either APES110 Aust 410.14A7 or ASQM 2. We suggest that the Code recognise this difference and the audit safeguard's longevity under certain circumstances. We suggest including the following guidance (or something similar) regarding this safeguard in the Code:

*If the Audit Firm*

- *Obtains an unqualified audit opinion as a safeguard under Aust R410.14.2; and*
- *During the 4 yrs following this opinion, the Audit Firm utilising this independence safeguard*
  - *undergoes all professional body reviews without issue*
  - *undergoes any ATO audit without issue*
  - *is not party to litigation relating to audit procedure*

*then there is a presumption that the safeguard afforded by the compliance audit under Aust R410.14.2 continues to be effective for the 4 years following issue of that audit opinion.*

**Sampling**

We suggest that the Code include guidance as to the minimum sample size and sample selection process necessary to ensure that audit and review options provide an effective safeguard. There has been a lot of uncertainty about this in connection with the concept of an appropriate reviewer. This would be a great opportunity to codify a minimum standard. We suggest that if the Reviewer (or the Auditor in a compliance engagement) selects their own stratified random sample, the sample size might reasonably be kept quite low (ie 1 fund selected for every 100 to 200 funds)

**How to report**

We are unsure how / to whom the Reviewer (or Auditor in a compliance engagement) is required to report their findings to an external party. We are not aware of any such requirement in ASAE3100 or ASQM 2.

Is there an expectation that the Reviewer/Auditor report negative findings to the ATO / another authority? If so, we suggest that this be codified.

## Scope of engagement to ensure effective safeguard

We are assuming that an engagement to secure a safeguard Aust R410.14.2 would restrict its scope to the auditor/audit firm's compliance with:

1. The auditing standards
2. Reporting requirements regarding the SIS Act/Regs (ie reporting in line with reportable provisions /contraventions as defined by the ATO)

We assume:

- Assessment of Firm quality control will only be relevant to the compliance audit safeguard, as internal controls must be assessed under ASAE3100. Quality control assessment would not be within the scope of a review under ASQM 2.
- Assessing firm/office/auditor independence would not be within scope of the review or audit. This is for the ATO to assess. The Review/Audit is only about obtaining a safeguard. It isn't intended to reach any conclusion re independence.
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- If these assumptions are correct, would it be appropriate that the Code confirm this to avoid confusion?

Thanks Jacinta!

Kind Regards ...

*Naomi Kewley*

BAcc MTax CA SSA SSAud.  
SMSF Specialist Auditor™  
SMSF Specialist Advisor™



Devonport Office – 52 Lakeside Drive, Acacia Hills 7306  
Kempsey Office – Suite 2, 29 Tozer Street, West Kempsey 2440  
P 1300 277 044  
[www.peaksuperaudits.com.au](http://www.peaksuperaudits.com.au)

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