

Independence – the issues

Are you complying with the independence guidelines?

Australian Taxation Office and the Institute's Quality Review Program results indicate that some members auditing Self-managed Superannuation Funds (SMSF) are not meeting the required standards – particularly in the area of auditor independence.

Some members may regard SMSF audits as small jobs where the strict rules about audit independence do not apply. It may be that members feel pressured by clients who do not understand the difference between tax and SMSF audits, and are unwilling to meet the expense of hiring one accountant for SMSF advice and another for the SMSF audit.

Whatever the motivation, breaches of the standards are not acceptable and can have serious consequences.

The costs of non-compliance

- > Non-compliance could cost your clients money. A breach of the standards can result in the SMSF trustees losing the tax benefits of the SMSF structure and facing financial penalties.
- > Members' failure to meet the high standards expected of Chartered Accountants could force the Institute to pursue accreditation or to stipulate mandatory training and knowledge requirements.
- > Failure to meet standards could also open the door to more intense scrutiny from the ATO and more prescriptive and costly regulation.

What is independence?

Members who audit SMSF funds need to follow the standard of independence set out in Professional Statement F1 – Professional Independence.

The principle that underpins these standards is best explained in paragraph ten of the statement:

'In each professional assignment undertaken, a member in public practice 'must both be and be seen to be free of any interest which is incompatible 'with objectivity.'

ATO benchmarking suggests that if the same firm prepares the tax return and

performs the SMSF audit there is an increased risk of a breach not being identified or reported.

If a firm prepares the tax return and performs the audit the fund will be at increased risk of an ATO audit.

The Institute recommends that firms consider the segregation of the two roles within the firm, outsourcing the audit function where appropriate. It may be appropriate to partner with another Chartered Accounting firm in order to provide complementary but independent SMSF services.

Your options

The decision to provide SMSF audit services remains with you. [Click here](#) to view an Assessing Auditor Independence Chart that can help with this.

The Institute provides a range of services that can help members comply with the standards. These services include:

- >The Institute's Audit of Self-managed Super Funds seminar, which will enhance your ability to manage SMSF audit work.

- > The SMSF audit work program can simplify and systemise the audit process and make performing SMSF audits more cost-effective. ATO feedback suggests members who use the Work Program are less likely to be in breach of standards.

Identify threats

Self Review Threat

Are the accounts prepared by the firm?		Yes	Is a different partner responsible for the conduct of the audit?	No	Decline Audit
YES	NO		YES NO BACK		BACK

Is there pressure not to qualify audit reports?		Yes	Decline Audit
YES	NO BACK		BACK

Self Interest Threat

Are the Trustees in a business or family relationship to auditor?		Yes	Decline Audit
YES	NO BACK		BACK

Is the Trustee a significant client of the firm? i.e. does the sum of the client's work make up a significant source of income to the firm		Yes	Does this impact objectivity?
YES	NO BACK		YES NO BACK

Does the firm provide investment advice to the Trustees?		Yes	Is the firm's income linked to investment performance?
YES	NO BACK		YES NO BACK

Does the firm invest monies of clients in entities related to the firm?		Yes	Decline Audit
YES	NO BACK		BACK

Decline Audit		BACK
---------------	--	------

Decline Audit		BACK
---------------	--	------

Decline Audit		BACK
---------------	--	------

Advocacy Threat

Have the Trustees adopted a strategy advocated by the firm?		Yes	Does this impact objectivity?	Yes	Decline Audit
YES	NO BACK		YES NO BACK		BACK

Intimidation Threat

Is there evidence of trustees intimidating the auditor?		Yes	Decline Audit
YES	NO BACK		BACK

No threats identified

Outsource audit to another firm
Put in place safeguards to address threat