

# FACT SHEET:



February 2021

## SMSF Auditor Independence

### Non-assurance services - What are the issues?

#### THREATS CREATED:

Multiple non-assurance services provided to SMSF audit clients

#### PROHIBITED:

Assuming management responsibility for SMSF audit clients

#### CODE NOW MORE

#### RESTRICTIVE:

Limited use of ethical walls for self review threats

#### NOW MAY NEED TO CHOOSE BETWEEN:

##### Non-assurance Services, including

- Compliance Advice
- Accounting and bookkeeping
- Financial advice
- Tax advice

OR

##### Audit

- Compliance
- Financial statements

##### Limited Exceptions

- 'Routine or mechanical' for accounting and bookkeeping services where there is little or no professional judgement, NO management responsibility is assumed and trustees take responsibility.
- Preparation of tax returns.

##### Limited Safeguards

- Needed to address threats where accounting is 'routine or mechanical'
- Available for non-assurance services when no management responsibility assumed.



### ACTIONS

WITHDRAW FROM AUDIT OR OTHER SERVICES BEFORE 1 JULY 2021

CHECK PI INSURANCE VALIDITY IF CODE BREACHED

AVOID NEW INDEPENDENCE THREATS  
FEE DEPENDENCY  
RECIPROCAL ARRANGEMENTS

### FURTHER RESOURCES

#### CPA PODCAST:

- [SMSF auditors: Independence and code of ethics](#)



#### ATO GUIDANCE:

- ATO Update: [ATO guidance on independence standards – update for SMSF auditors](#)
- ATO Update: [Our compliance approach to the new Independence Guide and in-house SMSF audits](#)



#### ARTICLES:

- Accountants Daily: [Charting a new course of Independence for SMSF accounting and audit firms](#)
- INPRACTICE: [Restructured Code of Ethics clarifies SMSF audit independence issues](#)



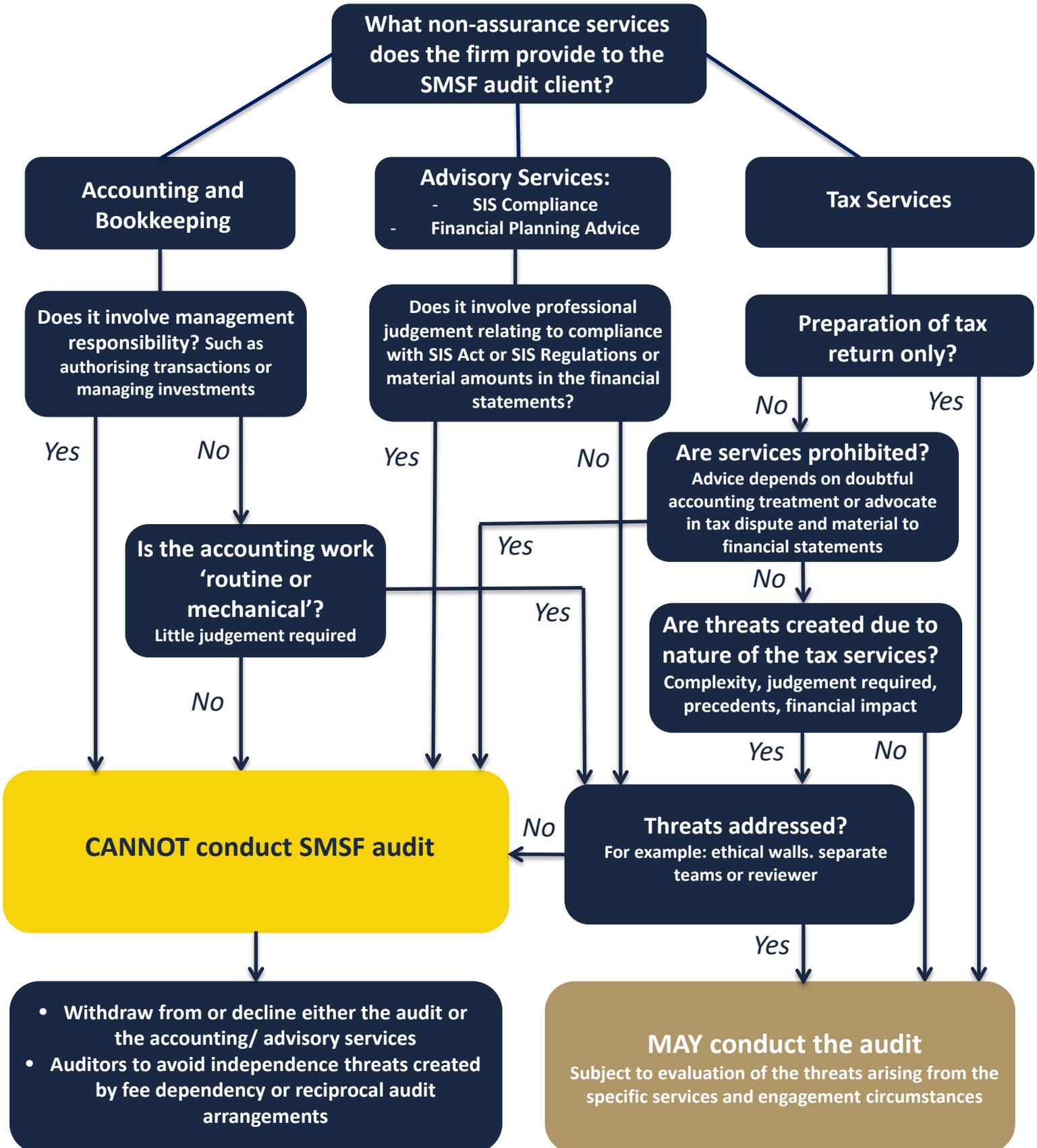
#### WEBINAR:

- Webinar recording: [CPA Australia's Independence Webinar](#)



# SMSF Auditor Independence

## Can auditors provide non-assurance services?



# SMSF Auditor Independence

## Can auditors provide non-assurance services?



Many accounting firms offer a complete administration service to trustees of Self-Managed Superannuation Funds (SMSFs), or a combination of services, as well as the annual financial and compliance audit. These non-assurance services (NAS) may include:

- Financial advice
- Tax advice and tax return preparation
- Advice on the SMSF's compliance with the Superannuation Industry (Supervision) Act and Regulations (SIS legislation)
- Accounting, bookkeeping and financial statement preparation

Auditors are required to be independent in accordance with the Code of Ethics for Professional Accountants (the Code). Safeguards, such as ethical walls, were once considered adequate to reduce independence threats to an acceptable level for non-assurance services to SMSF audit clients. APES 110 The [Code of Ethics](#) for Professional Accountants (the Code) has been restructured to clarify that services which include assumption of management responsibility for audit clients are prohibited. In addition ethical walls may not be an adequate safeguard to reduce independence threats for audit firms that offer multiple services to a SMSF.

### Independence requirements have been clarified

The Code became operative on 1 January 2020. The subsequent update to the Independence Guide (the Guide) was released in May 2020.

Changes to the Code include:

- New user guide and updated glossary.
- Separation of mandatory requirements from related guidance and application material.
- Increased focus on compliance with the fundamental principles and independence.
- Enhanced conceptual framework.
- Clarity regarding the use of ethical walls as safeguards for threats to independence.

**Code of Ethics**  
**Part 4A,**  
**Section 600**

**Independence**  
**Guide – Fifth**  
**Edition, May**  
**2020**  
Chapter 8

### Assumption of Management Responsibility Prohibited

For accounting firms that are offering a suite of services to a SMSF client, the most important consideration for determining whether services breach the independence requirements of the Code is whether that accounting firm is assuming management responsibility for the SMSF when preparing the accounts or advising on the compliance of the SMSF.

- The assumption of management responsibility in the provision of non-assurance services to an audit client is strictly prohibited in the Code, regardless of the type or size of the audit engagement.
- To avoid this prohibition, firms would need to demonstrate that the trustee is making all judgements and decisions that are the proper responsibility of management.
- For the majority of SMSF clients it is unlikely that firms would be able to sufficiently demonstrate that they do not take on any management responsibility, if the firm conducts the accounting and/or compliance advice for a SMSF.

**Code of Ethics**  
**Paragraphs**  
**R600.7**  
**R600.8**

**Independence**  
**Guide**  
Chapter 8,  
Scenarios 2 & 6-10

### Limited 'routine or mechanical' exemption for accounting and bookkeeping services

Where the trustee of a SMSF makes all related judgements and decisions that are the proper responsibility of management and so assumes full management responsibility of the SMSF, then:

- A firm may provide accounting, bookkeeping and audit services to a SMSF, if the accounting and bookkeeping services are 'routine or mechanical' and threats are addressed.
- Services that are 'routine or mechanical' require little or no professional judgement. Examples include posting transactions coded by the client to the general ledger, posting client approved entries to the trial balance and preparing financial statements based on information in the client-approved trial balance.
- SMSF auditors relying on this limited exemption will need to demonstrate that the trustee took full responsibility for the preparation and fair presentation of the financial statements.
- Many trustees are unlikely to have the requisite skills, knowledge and experience to be responsible at all times for the SMSF's decisions and to oversee the services provided by the audit firm in order to satisfy the requirements of the exemption.

**Code of Ethics**  
**Paragraphs**  
**601.4.A1**  
**R601.5**

**Independence**  
**Guide**  
Chapter 8,  
Scenarios 2 & 3

# SMSF Auditor Independence

## Can auditors provide non-assurance services?



### Threats still need to be addressed for 'routine or mechanical' accounting

Firms which do not assume management responsibility and only provide routine or mechanical accounting and bookkeeping services to SMSFs, will still need to address threats that are not at an acceptable level by applying safeguards, such as using separate teams to conduct each engagement or having an appropriate reviewer not involved in the service to review the audit or service performed.

**Code of Ethics**  
Paragraphs  
**601.4 A1 –**  
**601.5 A1**

**Independence**  
**Guide**  
Chapter 8,  
Scenarios 2-3

### Restructuring to separate audit from non-assurance services

- The Australian Taxation Office (ATO), regulator of SMSFs and co-regulator of SMSF auditors with ASIC, has identified that in most circumstances accounting firms offering multiple services to SMSFs including audit will not meet the requirements of the Code.
- Many firms will be required to restructure SMSF client engagements by withdrawing from or declining either the non-assurance services (accounting, compliance, financial or tax advice) or the audit.

**ATO: SMSF**  
**news and alerts**

### Independence traps: Relationships and reciprocal arrangements

- When disengaging from the non-assurance services but retaining a SMSF audit or accepting new SMSF audits, the firm needs to take care not to create new independence threats.
- Close relationships between auditors and referral sources can create self-interest, familiarity or intimidation threats.
- Fee dependency on the referral source or reciprocal or pooling arrangements where two firms audit each other's SMSF clients are prohibited.

**ATO: SMSF news**  
**and alerts**

**Independence**  
**Guide**  
Chapter 8,  
Scenarios 6-10

### Transition period

- The ATO will apply an educative approach to SMSF auditors' compliance with the Code's independence requirements until audits completed after 1 July 2021.
- Auditors need to ensure their PI insurance is still valid if they do not comply with the independence requirements of the Code, even if during the period the ATO are not taking compliance action.

**ATO: SMSF news**  
**and alerts**



### FAQs

[Click here](#)



- It is likely that I will need to restructure my firm's services to SMSFs. How long do I have to comply with these requirements?
- Should I experience delays with restructuring, what should I do?
- We have always relied on the concept of ethical walls in our firm, with different partners and teams providing each service, why is this safeguard no longer available?
- What are the consequences for not complying with the Independence Requirements?
- And more...

## CPA AUSTRALIA RESOURCES



**WEBINARS**



**PODCASTS**



**ARTICLES**



**Contact Us**

CPA Australia Policy & Advocacy  
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