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Neil Grummitt  
General Manager, Policy Development  
Policy, Research and Statistics  
Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001

Email: [superannuation.policy@apra.gov.au](mailto:superannuation.policy@apra.gov.au)

Dear Mr Grummitt,

### **Consultation on draft SPG 310 Audit and Related Matters**

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in relation to draft prudential practice guide *SPG 310 Audit and Related Matters* (SPG 310) released by the Australian Prudential Regulation Authority (APRA) on 20 September 2013.

We note that, as with the other PPGs that APRA has released, the intent of SPG 310 is to include practical guidance from the Regulator on matters that it considers an RSE licensee may take into account when determining how to meet the requirements with respect to audit-related matters. In that context, it is understood that SPG 310 is intended to provide guidance on APRA's view of sound practice in this area and does not create enforceable requirements.

ASFA has consulted with its members and reviewed draft SPG 310. Our comments are set out in this submission.

#### **About ASFA**

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

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## General comment

As an overall comment, ASFA is broadly comfortable with the guidance provided within draft SPG 310.

That said, we have identified a few key issues and provide our feedback/recommendations below for your consideration.

## Responsibility of RSE licensees

Paragraph 1 of draft SPG 310 states that “[i]t is the ultimate responsibility of the RSE licensee to ensure that the RSE auditor undertakes their role and responsibilities”.

This breadth of this statement is of concern to ASFA and our membership. Apart from monitoring whether the contractual obligations of the audit engagement are satisfied, ASFA considers that RSE licensees are not in a position to be responsible for whether auditors undertake their roles properly. Auditors are members of a professional association. With the possible exception of an extreme dereliction of their responsibilities, an RSE licensee is not able to assess whether the auditor has performed their audit work in accordance with the Auditing and Assurance Standards Board (AUASB) standards.

ASFA recommends that this sentence be amended to along the lines that: “[i]t is the responsibility of the RSE licensee to use all reasonable endeavours to ensure that the approved auditor complies with the terms of the engagement. This would include reviewing the contents of the annual auditor’s report for compliance with paragraphs 12 – 18 of SPS 310”.

Also, it is unclear whether there is an expectation that the RSE licensee will monitor whether the auditor has met their obligations under sections 129 and 130 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act), which relate to the obligations of actuaries and auditors in relation to compliance and solvency issues respectively? If so, ASFA recommends that guidance be provided within SPG 310 around APRA’s expectations of RSE licensees in this regard.

Another issue regarding the responsibility of RSE licensees is in paragraph 7(c) which states that the terms of the audit engagement letter must “refer the RSE auditor to the relevant provision in the SIS Act”. This requirement is of concern to ASFA, as outlined in our previous submission to APRA dated 20 July 2012 on the draft prudential standards for superannuation. As stated in that submission, an RSE licensee does not drive the terms of the engagement letter (nor does it have the expertise to do so). Rather, these are driven by the auditor, as a professional, pursuant to the requirements of the auditing standards and guidance statements. That is, the auditor draws up the engagement letter and provides it to the RSE licensee for approval, from which the parties enter into an agreement (legally binding contract).

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ASFA therefore recommends that clarification be included within SPG 310 that it is the auditor who refers the RSE licensee to the relevant provisions in the SIS Act, not the other way around.

### **Inconsistencies between SPS 310 and the AUASB standards**

Paragraph 7(b) of SPS 310 requires the terms of the audit engagement to “require the RSE auditor, in meeting his or her role and responsibilities, to comply with relevant standards and guidance statements issued by the Auditing and Assurance Standards Board (AUASB) (relevant AUASB standards and guidance) to the extent that they are not inconsistent with the requirements of this Prudential Standard and other prudential requirements. If they are inconsistent:

- (i) this Prudential Standard prevails; or
- (ii) APRA may notify the RSE licensee in writing that alternative standards and guidance must be used by the RSE auditor.”

We understand that the AUASB was consulted by APRA in developing SPS 310 and that the two entities worked closely together to ensure that, initially at least, there were no inconsistencies between the two standards and their requirements. Whilst we have not been made aware of any such inconsistencies being identified in practice to-date, ASFA is concerned that there is potential for inconsistencies to arise between SPS 310 and the AUASB standards in future.

Therefore, notwithstanding the fact that SPS 310 has now been finalised, ASFA contends that this is a significant concern for the industry and the wording within SPS 310 needs to be amended.

In particular, ASFA is concerned with the existence of an overriding clause that effectively requires an auditor in certain circumstances (i.e. where inconsistencies arise) to not comply with the AUASB standards. A preferable alternative is for APRA and the AUASB to work together to ensure that any changes to SPS 310 or the relevant AUASB standards and guidance are consistent. In ASFA’s view, SPS 310 should be amended to remove from paragraph 7(b) that, in the event of conflict, the prudential standard prevails over the AUASB standards.

Further, while SPS 310 requires the terms of the engagement to include paragraph 7(b), we question whether audit firms would be prepared to include the override aspect of this clause in the audit engagement letter, since these letters are typically issued by the auditor in accordance with AUASB standards and guidance. As such, if the override provision in paragraph 7(b) of SPS 310 is to remain, ASFA recommends that guidance be provided within SPG 310 around what trustees should do in the event that audit firms are not prepared to include the override aspect of paragraph 7(b) in the terms of the audit engagement letter.

We understand that the AUASB may be considering how it deals with the override aspect of paragraph 7(b) of SPS 310 in its own standards and guidance. We recommend that APRA work closely with the

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AUASB on this issue and consider whether greater guidance can be provided to RSE licensees within SPG 310 in relation to dealing with any inconsistencies that arise between the two sets of standards. In particular, we believe it would be useful for APRA to consider including a statement within SPG 310 about how the regulator will consult with the audit profession to determine suitable alternate audit rules in the event of any inconsistencies arising between SPS 310 and the AUASB standards and guidance.

\* \* \* \*

I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

If you have any queries or comments regarding the contents of our submission, please contact ASFA's Senior Policy Adviser, Jon Echevarria, on (02) 8079 0859 or by email [jechevarria@superannuation.asn.au](mailto:jechevarria@superannuation.asn.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Fiona Galbraith', is written over a light blue rectangular background.

Fiona Galbraith  
Director, Policy