SENATE SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

THIRD REPORT ON INQUIRY INTO PRUDENTIAL SUPERVISION AND CONSUMER PROTECTION FOR SUPERANNUATION, BANKING AND FINANCIAL SERVICES – AUDITING OF SUPERANNUATION FUNDS

RECOMMENDATION	GOVERNMENT RESPONSE
Recommendation 1 **The Committee recommends that Part 16 of the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) be amended to require auditors to report to the regulator any breach of compliance with the Act or suspicion of a fund's unsatisfactory financial position, at the same time as they report such issues to the trustee.**	The Government supports this recommendation. The Superannuation Working Group (SWG) also examined the issues related to the disclosure of information to both the regulator and members of the public. Part 16 of the SIS Act sets out special rules for actuaries and auditors of superannuation entities. It currently provides that the actuary or auditor must tell the trustee and may tell the regulator if he/she is of the opinion that it is likely that a contravention of this Act or the regulations may have occurred, may be occurring, or may occur, in relation to the entity. The Government will pursue legislative amendments so that the regulator must be told of the auditors concerns at the same time that the trustee is notified.
Recommendation 2 **The Committee recommends that the SIS Act be amended to require that auditors of superannuation funds be independent and that the auditor of a company is not also the auditor of the superannuation fund.**	The Government does not support this recommendation. The issues regarding auditor independence are covered under professional requirements for auditors. Separate auditors for a company and its superannuation fund may be appropriate, however, it would be difficult to implement due to the limited range of auditors in some locations. Further, there seems to be no compelling reason why, if an auditor is independent, that auditor cannot fulfil his or her professional obligations to audit both a company and its superannuation fund in accordance with appropriate legislative requirements. To ensure independence, audit firms may choose to have a different audit partner for the company and the fund.

Recommendation 3 **The Committee recommends that APRA prepare a set of guidelines outlining the specific areas which should be addressed in the audit report on assessments of risk management systems and investment strategies for superannuation funds.**	Noted. In response to the recommendations of the SWG, the Government has announced that it will amend the SIS Act to require superannuation fund trustees to prepare a Risk Management Plan (RMP) for each fund under their trusteeship. An RMP would describe the structures, systems and processes the trustee has in place to address the risks facing the superannuation fund.
Recommendation 4 **The Committee recommends that where a qualified audit report has been issued (other that merely on a technical ground such as a late return), there should be a formal requirement for a follow-up audit to be conducted within a specified time.**	The Government does not support this recommendation. Implementation of recommendation 1 will ensure that APRA is notified of any qualifications in an auditor's report in a timely manner. Further, the SWG examined a number of matters relating to disclosure of audit report qualifications. APRA has a number of tools available to pursue issues that might arise as a result of an audit report qualification. These include requiring the trustee to appoint someone to investigate the financial position of the entity (Part 25 of the SIS Act).

Recommendation 5 **The Committee recommends that the auditor's report on superannuation fund be sent, as a matter of routine, to all fund members, in order to improve accountability and ensure transparency of the trustee's actions and communication about the fund's financial state.**	Noted. The SIS Act currently provides for an audit report to be sent to members on request. In response to the recommendations of the SWG, the Government has announced that trustees will be required to notify members of qualified audit reports. Sending audit reports to members more generally will pose an additional financial burden on superannuation funds. The Government considers the existing access arrangements and revised notification procedures sufficient to ensure that trustees are accountable and that members are able to access adequate information.
Recommendation 6 **The Committee recommends that the larger superannuation funds regulated by APRA be required to carry out a prudential review, at a minimum of once every five years.**	The Government does not support this recommendation. The Government considers that reforms to be introduced in the SWG context, existing provisions in the SIS Act, and APRA's supervision practices are sufficient to ensure appropriate prudential practices. In response to the recommendations of the SWG, the Government has announced that superannuation fund trustees will be required to be licensed. One of the licensing conditions will be a requirement to maintain an RMP. An RMP is a document that sets out the measures an entity will apply to ensure that it is complying with the relevant governing rules. In addition, the SIS Act requires the trustee of a defined benefit fund to ensure an actuarial investigation is undertaken in relation to the fund, and must obtain an actuarial report in respect of that investigation (SISR 9.29 and 9.30). These requirements must be satisfied: on the establishment of the fund or on conversion from an accumulation fund to a DB fund; and in every three-year period after the last investigation.

Recommendation 7 **The Committee recommends that APRA consult with the relevant professional and regulatory bodies with a view to developing a requirement for trustees to provide a statement to the auditor prior to the audit of a superannuation entity. The statement would clarify that the accounts were believed to be in good order and to comply with the SIS Act, and would note any areas of weakness or concern in the fund's financial and management strategies.**	Noted. Under the current arrangements a majority of the medium and large audit firms require such an attestation prior to completion for their annual audits.
Recommendation 8 **The Committee recommends that the current move within the accounting and auditing profession to require the formal assessment of competency in auditing superannuation funds as a matter of some urgency.**	This is a matter for the industry. The Government supports proposals designed to improve the quality and skills within the auditing profession.