

PREFACE

This report presents the results of a roundtable on auditing of superannuation funds, which the Committee conducted under its reference to inquire into and report on prudential supervision, consumer protection for superannuation, banking and financial services. It is the Third Report which the Committee has presented under this reference.

As foreshadowed in both its First Report and Second Report, during the course of its inquiry into the regulatory framework, and subsequent inquiry into five case studies, the Committee became concerned that the standards of auditing, especially of superannuation funds, were not as high as they should be. In the wake of recent corporate collapses, and the mismanagement of some superannuation funds, the Committee wants to ensure that the bar is lifted not only for trustees, but also for auditors of superannuation funds.

The Committee acknowledges that a gap exists between the community's expectations of auditors and what auditors actually do. However, the Committee does not accept that auditors have only a limited role. Audit reports need to be able to be relied upon more widely than is currently the case. In particular, they must be able to be relied upon to provide early warning of potential fund failure.

The Committee notes that the accounting standards for superannuation are more rigorous than those applying in the commercial area and that, generally, most auditors of superannuation entities in Australia are performing at a high standard. However, it is essential for the profession to take a more forward-looking approach to improving the standards of auditing, and to do much more to address the expectation gap which exists in the community. The Committee therefore calls on the profession to take a broader and more proactive approach, rather than confining itself to explaining the limitations of their traditional role.

The Committee has made a number of recommendations designed to improve the standards of auditing of superannuation funds. These include strategies to:

- tighten the current reporting requirements under the SIS Act to require auditors to report directly to the regulator in certain circumstances;
- ensure genuine auditor independence;
- expand the nature of audit reports by requiring the auditors to assess and comment on the fund's risk management and investment strategies in accordance with guidelines prepared by APRA;
- require a follow-up to qualified audit reports;
- provide increased assurance about the effectiveness of the governance arrangements in place by requiring large funds to undertake a prudential review every five years; and

- improve communication with fund members by routinely providing them with the auditor's reports.

Superannuation is compulsory, with funds under management increasing yearly. As such, the Committee considers that the standards which apply to its management must be higher than for commercial companies where people may choose to invest.

Implementation of the Committee's recommendations will help to provide the community with greater assurance that their superannuation savings are safe and their retirement incomes assured.

I commend the report to the Senate.

Senator John Watson
Committee Chair