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To whom it may concern

### **Regulations relating to audits of SMSFs**

The Institute of Public Accountants (the Institute) takes this opportunity to respond to the *Regulations relating to audits of SMSFs*. The Institute has over 24,000 members and students throughout Australia and internationally. Many of our members are auditors of SMSFs and will be impacted by the proposed measures.

The Institute supports the registration of SMSF auditors as recommended by the Cooper Review of superannuation and as set out in the Stronger Super measures adopted by the government. The audit of an SMSF is vital to ensuring the integrity of the superannuation system. SMSF auditors must have the skills, knowledge and experience to perform their duties to a high standard. We therefore believe a properly implemented registration system will enhance the SMSF audit profession.

While we support the broad intent of the proposed regulations we believe that a number of enhancements will improve their effectiveness.

We would like to see the following amendments (for detail refer to Appendix 1):

- Specific recognition of SMSF auditors with years of experience who do not have audit training from their underlying qualification or a professional program;
- 300 hour experience requirement to be replaced by a log book of experience; and
- CPD to be restricted to 30 hours of structured CPD in SMSF, audit and related training.

Please contact our Senior Policy Adviser, Reece Agland, via e-mail at [reece.agland@publicaccountants.org.au](mailto:reece.agland@publicaccountants.org.au) should you wish to discuss the details of this submission further.

Kindest Regards



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## Appendix 1: Institute responses to specific Regulations

### Regulation 9A.01 Qualifications

Regulation 9A.01 sets out the qualification requirements for SMSF auditors; in particular an underlying three year qualification in accounting.

While we support the proposed regulation, we believe it to be inherently flawed in its failure to recognise an alternative means of knowledge acquisition possible through Continuous Professional Development (CPD) and relevant experience.

A degree, diploma or certificate in accounting of at least three years duration provides a base level of skill and knowledge.

In addition to this base level; skills and knowledge can be demonstrated through the professional programs of the professional bodies, ongoing CPD and hands on experience.

While CPD sessions may not be as academically rigorous as formal study, the knowledge gained and experiences shared with peers is often more focused on real world situations.

Skills may also be acquired and further developed in the workplace.

Accordingly we are of the opinion that CPD and experience should be seen as alternative means by which audit skills and knowledge may be ably demonstrated.

A further concern of the Institute relates to the requirement for prior audit training which unfairly imposes retrospectivity on existing SMSF auditors. Training has not previously been a requirement; meaning many existing SMSF auditors will not have an audit component in either their underlying qualification or may not have studied auditing through a professional program offered by their professional body .

It is our view that where these auditors can demonstrate suitable years of experience and a “clean” performance record, they should be registered .

Accordingly, Regulation 9A.01 should be modified to recognise other forms of skill acquisition.

Regulation 9A.01 should be amended to :

*“4 (a) A degree, diploma or certificate in accounting of not less than 3 years which does not include a course in audit, from a relevant body; and  
(b) at least 5 years experience in SMSF audit with at least 30 hours of Continuous Professional Development in SMSF and audit in the prior three years.”*

Should the regulation be amended as noted we believe that several hundred existing SMSF auditors will be eligible to register without recourse to the show cause power provided to ASIC in section 128B(1)(b).

A failure to amend the definition is likely to see between 300 and 500 existing SMSF auditors seeking qualification through the use of the discretion to register under section 128B(1)(b).

We are of the view that the discretion under section 128B(1)(b) should be used for unusual and exceptional situation where there is an otherwise good reason to register an applicant.

**Recommendation: Auditors who have an accounting qualification and experience but who have not undertaken a specific audit subject should be able to register. This requires amendment to regulation 9A.01; viz: :**

***4 (a) A degree, diploma or certificate in accounting of not less than 3 years which does not include a course in audit, from a relevant body; and  
(b) at least 5 years experience in SMSF audit with at least 30 hours of Continuous Professional Development in SMSF and audit in the prior three years.”***

### Regulation 9A.02 Practical Experience

The Institute accepts the need for a practical experience requirement for new SMSF auditors. Before an auditor signs off on an audit report they should have sufficient work experience under an existing SMSF auditor. However, the Institute is concerned that a high practical experience requirement will act as a barrier to entry for new registrants and will in particular make it difficult for persons in small practices to qualify.

The Institute is of the view that the 300 hours requirement is excessive and will limit the supply of new SMSF auditors.

We calculate 300 hours experience over a 3 year period to be broadly equivalent to 20 audits per annum. ATO data indicates that less than 20% of SMSF auditors undertake 20 or more SMSFs audits per annum. Accordingly, it follows that more than 80% of current auditors are unlikely to secure future registration.

It is important that there is a consistent flow of new entrants to the profession. The average age of SMSF auditors is in the fifties and many have ten or fewer years left in the profession. At the same time the number of new SMSF is growing. It is accordingly vital that there is regular growth in the number of SMSF auditors.

If the experience requirement remains high we could well repeat the problems seen in the Registered Company Auditor (RCA) sector where growth of specialists has been retarded due to retirements from the profession far outstripping new entrants who are discouraged by high entry requirements. We would not like to see this replicated in the SMSF sphere.

A shortage of SMSF auditors is likely to lead to increased costs (due to a decline in competition) with a potential for a reduction in quality as shortages lead to short cuts.

The Institute also believes that the high experience requirement will force many persons who are not currently auditors to bring forward their application to ensure entry under transitional rules. This may lead to persons undertaking audits before they are appropriately experienced; and will inevitably impact upon quality.

The Institute also believes that an hours based test does not ensure a breadth of experience. 300 hours of simple SMSF audits is not going to provide the same experience as 100 hours of complex SMSF audits.

The Institute therefore would like to see the 300 hours test replaced with a log book signed off by an existing SMSF auditor. Rather than hours; the existing SMSF auditor would sign off that the person has demonstrated experience across all aspects of an SMSF and has undertaken a mixture of simple and more complex SMSF.

A log book is likely to lead to more robust system of experience while at the same time allowing persons who have completed fewer hours to register.

**Recommendation: It is recommended that the 300 hours experience test be replaced by a logbook experience requirement.**

### **Regulation 9A.03 Continuing Professional Development Requirements**

The Institute supports a requirement that SMSF auditors undertake continuing professional development (CPD). It is important that auditors remain abreast of developments. The Institute believes the CPD requirement should reflect SMSF and audit training requirements only.

The Institute however has concerns with the CPD requirements relating to the amount of CPD and lack of detail as to what constitutes acceptable CPD.

1) Amount of CPD: As a full member of the International Federation of Accountants (IFAC) the Institute requires members to undertake at least 80 hours CPD every 2 years and requires SMSF auditors to undertake at least 30 hours of SMSF and audit training (as set out in the Joint Accounting Bodies *SMSF Auditor Competency Requirements*). These match the requirement set out in the draft regulation.

The Institute believes that regulation should focus on audit and SMSF training rather than a wider CPD requirement. The legislation and attending regulations deal exclusively with SMSF audit, and it therefore makes sense that the CPD requirements should focus exclusively on SMSF and audit issues.

Requiring auditors to show CPD in relation to areas outside SMSF audit is outside the ambit of the regulation. We would also question the relevance to the regulator of this information. If the regulator does not need this information then why are the regulations proposing to require auditors maintain records?

Accordingly it is suggested that CPD requirements set out in the regulation should be limited to 30 hours of SMSF, audit and similar relevant training. This will simplify the regulation of SMSF auditors. It will also simplify reporting without diluting the requirement for relevant SMSF and audit training.

2) Lack of detail as to what amounts to CPD. Meaningful definitions of CPD can be complicated. There are many different types of CPD designed for different purposes. The Institute divides CPD between structured CPD and unstructured CPD and requires a maximum of 40 hours of CPD per biennium to be unstructured. This is to ensure a minimum amount of structured CPD.

Structured CPD is defined as CPD where there is a formal learning objective and formal training process and includes attending seminars, courses and undertaking post graduate training.

Unstructured CPD is all other forms of CPD and where learning tends to be self paced. This CPD includes reading of materials, self-paced study and attending discussion groups.

As proposed, the regulations do not specify what is acceptable CPD. For example: does it include unstructured CPD? We believe this form of CPD should be included; since it allows for self study and talking issues through with other professionals.

Requiring 120 hours of structured experience will be expensive as most forms of structured training is fee based. Even at a modest cost is \$10 per hour; 120 hours of structured CPD would cost the average auditor \$1200.

It is however the Institute's view that there needs to be a minimum of structured CPD to ensure specific training outcomes.

We believe that while there should be a mix of structured and unstructured training, this is not an issue for the regulation. We believe the regulation should focus on SMSF and audit related study. We would like to see the CPD requirement simplified to require 30 hours of SMSF, Audit and related structured training over a three year period.

This change will clarify the type of training required, and focus training on SMSF and audit issues to make it simpler for auditors to demonstrate compliance.

Extending the CPE requirement introduces extra complexity, compliance and confusion without improving SMSF Audit.

**Recommendation: Regulation 9A.03 should be amended to require 30 hours of structured SMSF and audit training, with a minimum of 8 hours on SMSF audit training.**

#### **Regulation 9A.04 Professional indemnity insurance**

The Institute supports the proposals in relation to PI insurance as meeting the minimum required insurance.

#### **Regulation 9A.05 Auditor independence**

The Institute supports requiring SMSF auditor independence to comply with APES 110 Code of Ethics for professional accountants. This reflects international standards on auditor independence. It will also allow the bodies to establish guidance in relation to auditor independence under APES 110.

The professional bodies have undertaken significant work in relation to auditor independence. We will be shortly issuing a guide in relation to auditor independence with a section dedicated to independence for SMSF auditors.

A concern of the Institute with proposed Regulation 9A.05 is that it refers to compliance with "*APES 110 Code of Ethics for Professional Accountants issued in December 2010*".

We have highlighted the words "issued in 2010" because this sets the APES 110 standard at a specific point in time. All APES standards are regularly reviewed and updated. While the current version was issued in 2010, there will be further revised versions with a different date. We believe the regulation should merely refer to APES 110 and not the version at a particular time.

#### **Transitional Arrangement**

The Institute supports the proposed transitional arrangements.

#### **Recognition of IPA**

The Institute in particular supports amending the regulations to refer to Institute of Public Accountants in place of the National Institute of Accountants.

#### **Prescribed period for SMSF Audit report**

The Institute supports requiring an SMSF audit to be lodged within 28 days of all necessary material being provided to the auditor.