



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 192

Competency standards for auditors of self-managed superannuation funds

November 2012

About this paper

This consultation paper sets out proposed competency standards for auditors of self-managed superannuation funds (SMSFs) under proposed changes to the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 14 November 2012 and is based on proposed changes to the SIS Act as at the date of issue.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information. We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our competency standards for auditors of SMSFs. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a Regulation Impact Statement: see Section C, 'Regulatory and financial impact'.

Making a submission

We will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any financial information) as confidential.

Comments should be sent by 30 November 2012 to:

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What will happen next?

Stage 1	14 November 2012	ASIC consultation paper released
Stage 2	30 November 2012	Comments due on the consultation paper
Stage 3	5 December 2012	Final standards released (subject to relevant legislation being enacted)

A Background to the proposal

Key points

On 16 December 2010, the Australian Government announced its response to the Super System Review, the Stronger Super reforms, which included implementing auditor registration and compliance for auditors of self-managed superannuation funds (SMSFs).

Under the Stronger Super reforms, ASIC is responsible for registering auditors of SMSFs. Competency standards form part of the ongoing requirements for these auditors.

We have set out proposed competency standards for approved SMSF auditors in draft competency standards attached to this paper.

These standards have been developed in consultation with industry bodies and the Australian Tax Office (ATO) and are based on existing professional competency standards.

Auditor registration and compliance

- 1 Under proposed changes to the *Superannuation Industry (Supervisions) Act 1993* (SIS Act), known as the Stronger Super reforms, auditors of self-managed superannuation funds (SMSFs) must be registered with ASIC. The registration regime is scheduled to commence on 31 January 2013. From 1 July 2013, auditors who sign auditor reports for SMSFs must be registered.
- 2 One of the requirements of the proposed new regime is that approved SMSF auditors must comply with competency standards in accordance with the proposed changes to the SIS Act.

Note: In this paper, 'approved SMSF auditor' refers to an auditor of SMSFs that has been registered with ASIC as defined in s10(1) of the SIS Act after 31 January 2013.
- 3 The Super System Review, on which the Stronger Super reforms are based, recognised that parts of the regulatory framework for SMSFs needed to be improved. Given the pivotal role that auditors of SMSFs play in underpinning this regulatory framework, the review recognised that the competence of these auditors should provide the level of compliance assurance that the new regulatory framework demands.
- 4 Auditor registration and compliance aligns with the Australian Government's objectives to ensure that the superannuation system operates fairly and that retirement savings are managed efficiently and in the best interests of superannuation fund members.

Proposed competency standards

- 5 The proposed competency standards that approved SMSF auditors would be required to meet as part of the Stronger Super reforms are set out in draft Class Order [CO 12/XX] *Competency standards for auditors of self-managed superannuation funds* (draft [CO 12/XX]): see the appendix to this paper. We consider that these standards are appropriate for an approved SMSF auditor.

- 6 In accordance with the Australian Government's recommendation, we have reviewed existing professional competency standards for auditors of SMSFs issued by CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (together, the Joint Accounting Bodies (JAB)).

- 7 We have based the proposed competency standards in draft [CO 12/XX] on *Competency requirements for auditors of self-managed superannuation funds* issued by the JAB in February 2008.

Your feedback

- 8 We welcome any feedback you have on the proposed competency standards. We will take your comments into account when finalising the class order.

B Proposed competency standards

Key points

We propose to set competency standards for approved SMSF auditors under 128Q of the SIS Act: see draft Class Order [CO 12/XX] *Competency standards for auditors of self-managed superannuation funds*.

The proposed competency standards were developed in consultation with industry bodies and the ATO and are based on existing professional competency standards.

We welcome your feedback on the proposed standards.

Draft Class Order [CO 12/XX]

Proposal

- B1** We propose to issue a class order setting out the competency standards that approved SMSF auditors must meet under proposed changes to the SIS Act: see the draft competency standards in the appendix to this paper.

Your feedback

- B1Q1** Do you have any comments on the proposed competency standards for approved SMSF auditors?

Rationale

- 9 We consider that the proposed competency standards are appropriate for approved SMSF auditors.
- 10 The registration of auditors of SMSFs and the setting of competency standards by ASIC was one of the key recommendations of the Super System Review. This recommendation was supported by the Australian Government in its Stronger Super reforms, including considering existing professional competency standards in setting these standards.

C Regulatory and financial impact

- 11 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us, we think they will strike an appropriate balance between:
- (a) new regulatory objectives to set competency standards for all approved SMSF auditors as recommended by the Australian Government; and
 - (b) existing competency standards for auditors of SMSFs.
- 12 Before settling on a final policy, we will comply with the Australian Government's regulatory impact analysis requirements by:
- (a) considering all feasible options, including examining the likely impacts of the range of alternative options which could meet our policy objectives;
 - (b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR); and
 - (c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a Regulation Impact Statement (RIS).
- 13 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.
- 14 To ensure that we are in a position to properly complete any required RIS, please give us as much information as you can about our proposals or any alternative approaches, including:
- (a) the likely compliance costs;
 - (b) the likely effect on competition; and
 - (c) other impacts, costs and benefits.

See 'The consultation process', p. 4.

Key terms

Term	Meaning in this document
approved SMSF auditor	Has the meaning given in s10(1) of the SIS Act after 31 January 2013
ASA	Auditing standard
ASAE	Auditing and assurance standard
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ATO	Australian Tax Office
AUASB	Auditing and Assurance Standards Board
competency standards	The competency standards for approved SMSF auditors set by ASIC under s128Q of the SIS Act
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
draft [CO 12/XX]	The draft ASIC class order in the appendix to this paper that sets out proposed competency standards for approved SMSF auditors
JAB	Joint Accounting Bodies, being CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants
s10(1) (for example)	A section of the SIS Act (in this example numbered 10(1)), unless otherwise specified
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SIS Regulations	Superannuation Industry (Supervision) Regulations 1994
Stronger Super reforms	Proposed changes to the SIS Act, in response to the Super System Review
Super System Review	A review of the superannuation system in Australia, initiated by the Australian Government

Appendix: Draft [CO 12/XX] *Competency standards for auditors of self-managed superannuation funds*

Australian Securities and Investments Commission

Superannuation Industry (Supervision) Act 1993 — Section 128Q — Determination

Enabling legislation

1. The Australian Securities and Investments Commission makes this instrument under subsection 128Q(1) of the *Superannuation Industry (Supervision) Act 1993*.

Title

2. This instrument is ASIC Class Order [CO 12/*****].

Commencement

3. This instrument commences on the day after it is registered under the *Legislative Instruments Act 2003*.

Note: An instrument is registered when it is recorded on the Federal Register of Legislative Instruments (FRLI) in electronic form: see the *Legislative Instruments Act 2003*, section 4 (definition of register). The FRLI may be accessed at www.frli.gov.au.

Determination

4. All approved self-managed superannuation fund (SMSF) auditors must comply with the following competency standards.

Dated this **** day of **** 2012

Signed by

as a delegate of the Australian Securities and Investments Commission

Competency standards for approved SMSF auditors

Introduction

These are the competency standards that an approved self-managed superannuation fund (SMSF) auditor must comply with under subparagraph 128F(c)(i) of the *Superannuation Industry (Supervision) Act 1993* (the SIS Act). They specify the competencies that such an auditor is required to have in all of the following areas:

- (a) client acceptance and retention;
- (b) engagement planning;
- (c) controls evaluation and testing;
- (d) substantive testing;
- (e) forming an opinion;
- (f) documentation.

The standards are based on *Competency requirements for auditors of self-managed superannuation funds* dated February 2008, prepared by the Joint Accounting Bodies (i.e. CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants).

Understanding of legislative and other requirements

1. An approved SMSF auditor must understand all of the following:
 - (a) the SIS Act and the Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations) as they apply to an SMSF and to an approved SMSF auditor;
 - (b) any auditing standards (ASAs) made by the Auditing and Assurance Standards Board (AUASB) under section 336 of the *Corporations Act 2001* (Corporations Act) and related guidance, that are applicable to the duties of an approved SMSF auditor under the SIS Act;
 - (c) any auditing and assurance standards (ASAEs), formulated by the AUASB under section 227B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) and related guidance, that are applicable to the duties of an approved SMSF auditor under the SIS Act;
 - (d) APES 110 Code of Ethics for Professional Accountants (APES 110) issued by the Accounting Professional & Ethical Standards Board Limited in December 2010 as it applies to audit and assurance engagements in relation to SMSFs;

- (e) any accounting standards made by the Australian Accounting Standards Board (AASB) under section 334 of the Corporations Act or formulated under section 227 of the ASIC Act, that are applicable to financial reporting in relation to an SMSF;

Note 1: An understanding of the accounting standards includes an understanding of the valuation of assets, tax effect accounting and disclosure of financial information.

Note 2: An understanding of the SIS Act and SIS Regulations as it applies to SMSFs includes an understanding of the provisions relating to all of the following:

- (a) contributions;
- (b) benefits;
- (c) investments; including:
 - (i) in-house assets;
 - (ii) loans;
 - (iii) borrowings;
 - (iv) investment restrictions;
- (d) record keeping;
- (e) sole purpose of an SMSF;
- (f) trustees;
 - (i) structure;
 - (ii) residency;
- (g) reporting.

Note 3: An understanding of the SIS and SIS Regulations as it applies to approved SMSF auditors includes an understanding of the provisions relating to all of the following:

- (a) the obligations of an approved SMSF auditor;
- (b) reporting obligations of an approved SMSF auditor.

Task-specific knowledge requirements

2. An approved SMSF auditor must understand the matters referred to in paragraphs 14, 25, 26, 33, 42 and 49 in relation to each task in respect of which they are specified.

Note 1: An auditor will generally need to perform the tasks when deciding to undertake or undertaking an audit and assurance engagement in relation to an SMSF. Whether an auditor needs to perform any particular task in connection with an engagement or proposed engagement is a matter that the auditor will need to determine having regard to the circumstances.

Note 2: The tasks are not intended to be a substitute for an audit or assurance program required by the relevant the auditing and assurance standards, nor for the need to understand and apply the relevant requirements of the ASAs, ASAEs, APES 110 and the SIS Act and SIS Regulations.

A. Client acceptance and retention

Tasks

A.1 *Planning*

3. Identify the criteria for the client acceptance/retention decision on a potential/existing SMSF audit and assurance engagement (the engagement).

A.2 *Evidence gathering*

4. Gather evidence related to the client acceptance / retention decision.

5. Gather information about the fund to ensure that the approved SMSF auditor is able to make an objective assessment regarding auditor independence, and also assess whether the approved SMSF auditor has the knowledge and skill required to undertake the engagement adequately.

6. This information will include both of the following:

- (a) *details of fund trustees*—used to assess auditor independence matters and compliance with the definition of an SMSF;
- (b) *details of fund investments*—used to determine whether there are complex issues related to the types of investments and compliance with the SIS Act and SIS Regulations (SIS Act compliance) in relation to which the approved SMSF auditor may not have the skills and experience required for the engagement.

A.3 *Evidence evaluation*

7. Evaluate the evidence related to the client acceptance and, or, retention decision.

8. Evaluate the information and document any difficulties which may be encountered in the engagement and their potential resolution.

9. This information will include both of the following:

- (a) any identified independence issues and how they may be mitigated;
- (b) the steps the approved SMSF auditor has taken to ensure they have the skills required to address complex issues which may exist.

A.4 *Decision making*

10. Decide whether to accept or reject a particular engagement.

11. Make an objective decision regarding the appropriateness of accepting an appointment giving appropriate regard to any independence matters, potential risks, and the approved SMSF auditor's skills and knowledge.

12. Implement appropriate safeguards that will mitigate identified independence threats to an acceptable level.

13. Decline the engagement where the approved SMSF auditor is unable to satisfy the independence requirements, including where appropriate safeguards are not able to be implemented.

Note: Approved SMSF auditors are required to be independent of their clients both in appearance and in fact. The concept of professional independence is fundamental to compliance with the principles of integrity and objectivity, which are consistent with objective and impartial judgement. Approved SMSF auditors need also to be mindful of independence issues arising during the conduct of the engagement. If the latter arises care needs to be taken to either implement appropriate safeguards, or ultimately resign from the engagement if no safeguards are appropriate. Approved SMSF auditors need to be particularly aware of the advocacy threat created where he or she has provided advice in connection with a transaction, and decline the engagement where independence is impaired, or perceived to be impaired.

Related knowledge requirements

14. Approved SMSF auditors must understand all of the following in relation to the tasks specified in paragraphs 3 to 13:

- (a) ethical requirements (especially independence);
- (b) financial audit and compliance assurance engagement requirements;
- (c) the terms of the engagement;
- (d) SIS Act and SIS Regulations compliance.

B. Engagement planning

Tasks

B.1 Planning

15. Identify the engagement objectives and any risks to be addressed during the engagement.

16. The engagement plan should, at a minimum address the risks, and the nature and extent of the planned audit work, in relation to the trustee's compliance with the provisions of the SIS Act and SIS Regulations identified in the report required under subsection 35C of the SIS Act.

17. The plan must be tailored to suit the engagement being undertaken.

B.2 Evidence gathering

18. Gather evidence relevant to the development of the engagement plan.

19. This evidence includes the trust deed, the fund's investment strategy, financial statements and minutes and other relevant supporting documents.

B.3 Evidence evaluation

20. The gathered documents must be reviewed to identify any potential high risk engagement areas and the detailed documentation which will be required in connection with the performance of the engagement.

B.4 Decision making

21. Determine an appropriate materiality level.

22. Decide on the preferred engagement approach, based on the knowledge gained and the risks identified.

23. Decide on the preferred engagement approach to be undertaken in respect of SIS Act and SIS Regulations compliance.

24. Document the engagement plan.

Related knowledge requirements

25. Approved SMSF auditors must understand the requirements of auditing and assurance standards addressing engagement planning in relation to the tasks specified in paragraphs 15 to 24, including all of the following:

- (a) understanding the entity and its environment and assessing the risks of material misstatement;
- (b) consideration of fraud in an audit of financial statements;
- (c) materiality;
- (d) procedures in response to assessed risks.

26. Approved SMSF auditors must understand the requirements of the SIS Act and SIS Regulations in relation to the tasks specified in paragraphs 15 to 24.

C. Controls evaluation and testing

Tasks

C.1 Planning

27. Understand internal control procedures in sufficient detail to be able to determine whether it may be appropriate to plan to rely on internal controls.

28. Identify/document procedures in place to safeguard the assets of the fund.

C.2 Evidence gathering

29. Gather evidence relevant to determining the effectiveness of operation of any control procedures on which reliance is planned.

30. This evidence includes the trust deed, financial statements and minutes and other relevant supporting documents.

C.3 Evidence evaluation

31. Evaluate the evidence gathered.

C.4 Decision making

32. Decide whether planned reliance on internal control procedures is appropriate.

Related knowledge requirements

33. Approved SMSF auditors must understand all of the following in relation to the tasks specified in paragraphs 27 to 32:

- (a) the requirements of ASAs regarding an understanding of the controls environment;
- (b) the requirements of SIS Act and SIS Regulations in relation to controls;
- (c) the importance of controls, particularly over banking and investment transactions.

D. Substantive testing

Tasks

D.1 Planning

34. Identify the nature, timing and extent of audit procedures necessary to gather evidence in support of the financial statement assertions for material account balances and classes of transactions.

35. Identify the nature, timing and extent of audit procedures necessary to gather evidence in support of the fund's compliance with the relevant sections of the SIS Act and SIS Regulations.

D.2 Evidence gathering

36. *Financial statement*—gather evidence in support of the financial statement assertions for material account balances and classes of transactions

37. *SIS Act compliance*—gather evidence to test the fund's SIS Act and SIS Regulations compliance.

D.3 Evidence evaluation

38. Document the results of the testing and conclude on the findings.
39. Conclusions must be supported by appropriate audit documentation.

D.4 Decision making

40. Consider whether sufficient appropriate audit evidence has been gathered in order to support the opinion.
41. Determine the further evidence required and the implications for the engagement plan.

Related knowledge requirements

42. Approved SMSF auditors must understand all of the following in relation to the tasks specified in paragraphs 34 to 41:
 - (a) financial statement assertions;
 - (b) audit evidence;
 - (c) audit sampling;
 - (d) audit documentation;
 - (e) SIS Act and SIS Regulations compliance.

E. Forming an opinion

Tasks

E.1 Planning

43. *Financial report*—identify the nature, timing and extent of audit procedures necessary to forming an opinion on the financial report.
44. *SIS Act compliance*—identify the nature, timing and extent of audit procedures necessary to forming an opinion on the fund's SIS Act and SIS Regulations compliance.

E.2 Evidence gathering

45. Prepare a summary of the engagement findings relating to the financial report, as well as engagement findings relating to compliance matters.

E.3 Evidence evaluation

46. Form an opinion on the financial report, as well as on SIS Act and SIS Regulations compliance, using the information gathered during the engagement.

E.4 Decision making

47. Determine the appropriate form of auditor's report on the financial report.

48. Determine the appropriate form of auditor's report on compliance matters, and if any matters require reporting to the trustees or notification to the Australian Taxation Office.

Related knowledge requirements

49. Approved SMSF auditors must understand the requirements of SIS Act and SIS Regulations and the scope of the reporting obligations in relation to both of the following:

- (a) mandated reporting requirements;
- (b) voluntary reporting obligations.

F. Documentation

Tasks

F.1 Engagement working papers

50. Create and retain engagement working papers sufficient to enable a peer who has had no previous involvement with the engagement to gain an understanding of the work performed and the opinion reached.

51. Auditors must document the nature, timing and extent of procedures performed, identifying characteristics of the items or matters tested and who prepared and reviewed the audit work.

Related knowledge requirements

52. Approved SMSF auditors must understand the audit and assurance engagement documentation requirements of the relevant ASAs and ASAEs in relation to the tasks specified in paragraphs 43 to 51.