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## **SMSF Auditor registration basics**

### **What is SMSF Auditor Registration?**

SMSF Auditor registration is a process whereby those who audit SMSF will be required to register with ASIC. At the moment to be an SMSF auditor you need to be a member of a professional body recognized by the regulations. Under the proposals, any person who wants to be an SMSF auditor will need to meet the requirements set by ASIC and be registered.

Auditors will need to meet the following requirements to be registered as an SMSF auditor:

- hold a tertiary accounting qualification that includes an audit component or have successfully completed study in audit as part of a professional accounting body program;
- meet a fit and proper test;
- hold professional indemnity insurance;
- have 300 hours of SMSF audit experience in the three years prior to registration, subject to transitional arrangements; and
- pass a competency exam, subject to transitional arrangements.

### **When does SMSF Audit Registration come into effect?**

SMSF auditors will be able to begin to register with ASIC from 31 January 2013, with existing auditors wishing to take advantage of the transitional provisions being required to be registered by 1 July 2013. Existing SMSF Auditors who are required to undertake a competency exam will be able to do so from 1 July 2013 and have until 30 June 2014 to successfully complete the exam and become fully registered.

### **Why is SMSF Auditor Registration being brought in?**

SMSF Auditor Registration is being brought in as a result of Cooper review into superannuation. It recommended that all SMSF auditors be registered and that the registration body should be ASIC. There is some concern by the regulators that not all SMSF auditors have sufficient skills and experience to undertake SMSF audits of sufficient quality.

The Cooper review was of the view that auditor registration would assist to improve the quality of SMSF audits.

### **What will the requirements be for existing SMSF Auditors?**

Any person who has undertaken an SMSF audit in the year leading up to registration will come in under the transitional arrangements for existing SMSF auditors. Existing auditors will be broken down into two groups, those that do 20 or more audits per year and those that do less than 20 audits per year.

Those who do 20 or more audits per year will be able to become registered from the start date of 31 January 2013 as long as:

- have tertiary qualification in accounting (either a Degree, Advanced Diploma, Certificate or higher qualification – of at least 3 years full time duration);
- have done an audit subject as part of their qualification or through a professional program offered by IPA, CPA Australia or ICAA or the SPAA Accredited Audit program;
- are a fit and proper person (not a bankrupt, not convicted of serious criminal offence, etc); and
- hold professional indemnity insurance

They will not be required to undertake a competency exam. Members though will still need to comply with the SMSF auditor competency requirements as well as any registration requirements.

Members who currently undertake less than 20 SMSF audits per year will have to meet the above requirements and in addition:

- pass a competency test.

### **What will the requirements be for new SMSF Auditors?**

For those that wish to become registered SMSF auditors after the start of the licensing system will have to meet the following requirements:

- have tertiary qualification in accounting (either a Degree, Advanced Diploma, Certificate or higher qualification – of at least 3 years full time duration);
- have done an audit subject as part of their qualification or through a professional program offered by IPA, CPA Australia or ICAA or the SPAA Accredited Audit program;
- meet a fit and proper test;
- hold professional indemnity insurance;
- have 300 hours of SMSF audit experience in the three years prior to registration under an Approved SMSF Auditor, subject to transitional arrangements; and
- pass a competency exam, subject to transitional arrangements.

### **What are the prior education requirements?**

To be an SMSF auditor you will have had to have completed tertiary qualifications in accounting. Tertiary qualifications include advanced diploma and certificate as well as degree and higher qualifications. The qualification must be at least 3 years in length.

SMSF auditors will need to also show they have undertaken an audit component. This audit component will have been completed either as part of their underlying qualification or through an audit subject that forms part of the professional program of one of the three professional accounting bodies. The IPA Program's UNE audit subject is recognized for this purpose.

There will be special consideration rules for people that do not meet the requirements but otherwise have a compelling case to be registered. The case will, however, have to be compelling such as years of experience, other audit training and significant number of audit clients.

### **What if I don't meet one or more of the qualification requirements?**

There are likely to be a number of members who are proficient in SMSF audit but do not meet one or more of the prior educational requirements. Such members will still have the ability to be registered with ASIC. ASIC will be provided with a power to register a person where they can show cause why they should be registered regardless of not meeting one or more of the requirements.

Section 128B(2) provides ASIC the power to register a person even where they do not meet one or more of the requirements but can show cause why they should such that the person (i) is capable of performing the duties of an approved SMSF auditor; and (ii) is unlikely to contravene the obligations of an approved SMSF auditor under Subdivision B; and (iii) is otherwise a fit and proper person to be an approved SMSF auditor.

There are likely to be members who did not have an audit subject as part of their underlying qualification and who did not undertake the IPA program. Such persons will need to use this 'show cause' power to become registered. They will need to apply for registration and seek leave for ASIC to use its powers.

### **What if I have an overseas qualification?**

Auditors with overseas qualifications will need to have their overseas qualification assessed by an authorised assessing authority of the National Office of Overseas Skills Recognition (NOOSR).

The Institute is an authorised assessing authority and can quickly assess your qualification for the purposes of registration. Please note that the assessment process is designed to determine the Australian equivalent of your overseas qualifications.

### **What are the 'fit and proper' requirements?**

The fit and proper test is to ensure that a person seeking registration is of good standing. SMSF auditors will need to have a clean record with ASIC and the ATO (i.e. no disqualifications as a tax agent/BAS agent, SMSF approved auditor or financials services adviser as well as not be an undischarged bankrupt.

### **What are the professional indemnity insurance requirements going to be?**

The regulations say that the minimum PI Insurance will be the following:

- cover civil liability up to at least \$500,000;
- cover expenses incurred in defending and settling a claim (preferably cost in addition cover);
- cover claims for SMSF audit;
- excess set at a level that can be covered by the practitioner; and
- at least one Automatic reinstatement.

### **What is a competency exam?**

The Competency Exam is a test that will be set by ASIC, in consultation with the accounting profession and education experts. It is designed to ensure that SMSF auditors have sufficient knowledge to undertake an audit competently.

While the final make up of the Competency Exam has yet to be finalised it is likely to focus on the core audit competencies as set out in the Joint Accounting Bodies *SMSF Auditor Competency Requirements* being:

- Client acceptance and retention;
- Audit planning;
- Controls evaluations and testing;
- Substantive testing; and
- Forming an opinion.

The exam will also likely test knowledge of the key *Superannuation (Industry Supervision) Act* and *Superannuation (Industry Supervision) Regulations* requirements such as:

- Sole purpose test
- In-house asset rules
- Borrowings
- Investment restrictions
- Contributions
- Contravention reporting.

We will keep members informed as more information become publically available.

The IPA will provide training to assist members who need to do the competency exam. Member should keep an eye open for these events..

### **Why is there a distinction between auditors who undertake 20 or more audits and those that do less?**

One of the driving forces behind the SMSF auditor registration was concern that there are a number of auditors who undertake only a small number of audits (say less than 5 per year) who have been shown to not have sufficient skills and experience to undertake a competent audit of an SMSF. The registration system is designed to ensure that there is a high base level of skills and experience by those who undertake the audit of SMSF. It was determined that those auditors who already undertake a significant number of SMSF are likely to have the requisite skills and knowledge and should be afforded a more streamlined process.

It was agreed that while no number was perfect that those who do 20 or more audits are more likely to have sufficient experience to go into the system through a simplified system. Those who do less than 20 though will not be barred from being an SMSF auditor, they will though have to show they have the competency to undertake an SMSF audit by doing the competency test.

### **Why will new auditors have to show 300 hours experience in SMSF auditing before they can be registered?**

New entrants will have to show they have sufficient experience in auditing prior to being a registered auditor.

Those that may fall just short of the 300 hour requirement will be able to seek special consideration from ASIC to be registered. In particular if a person is from a regional or rural area it may be more difficult to get the required hours, if they are only just short them may seek special leave of ASIC to be registered.

### **Will there be ongoing training requirements?**

The draft regulations stipulate that Approved SMSF Auditors will need to undertake minimum amounts of continued professional Education (CPE).

They will need to do at least 120 hours total of CPE over a three year period. 30 Hours every three years must be in relation to superannuation training and 8 hours at least of this must be SMSF audit training.

Auditors must also keep a written record of their CPE for a period of at least 3 years, which may be reviewed by ASIC.

### **How much will registration cost?**

The government has said that the cost will be kept low. At this stage the likely cost are going to be:

- Registration fee: \$100
- Annual renewal fee: \$50
- Competency test fee; \$100

## **Opportunities**

### **Is this a good thing?**

The IPA believes that changes will assist in raising further the standard of SMSF auditing. While most SMSF auditors are doing the right thing, the small numbers of those that are doing them incorrectly are giving the profession a bad name. Registration will ensure a consistent and high level of standards in auditing.

It is though important to ensure that the new requirements are workable and do not create a bar to new entrants or raise the costs of undertaking an SMSF audit too high.

### **Will these changes provide opportunities for my business?**

There are opportunities with the registration requirements for SMSF auditors. Some existing SMSF auditors may determine that the cost of meeting the new requirements are too high for the small number of SMSF clients they have. Many will be looking to find another IPA member who they trust to take on the audit function for their SMSF clients. Therefore there is a business opportunity for members to create networks of referral arrangements.

Member will also have the opportunity to market themselves as an SMSF audit specialist by improving their skills and standing in the profession.

### **What should I do now?**

Members should assess their SMSF audit clients, the cost of regulation (including any additional training they may need to undertake to meet the new requirements) and determine whether they want to be an SMSF auditor.

For those that do decide they want to be a registered SMSF auditor then you will need to assess whether you will be able to come in as someone who has done more than 20 SMSF audits per year or not. If you are close to that threshold it may be advisable to seek some additional SMSF audit clients. For those that will be under the threshold you will need to assess your current knowledge of SMSF audit requirements and issues. The IPA will assist members to undertake a form of self-assessment to give you a clearer understanding of your current knowledge level. The competency test will be rigorous and is designed to highlight areas of knowledge deficiency. If you fail the test once you will be able to resist the test.

The IPA has developed some training packages which will be made available to members as final details are revealed. While the specifics have yet to be finalized the general areas of knowledge that are likely to form the basis of the exam are known. Members who will seek registration should consider what additional training they should undertake to ensure they are compliant with the new requirements.

The IPA will provide regular updates to members on the SMSF auditor requirements so that members are prepared for the start date of 31 January 2013.

## **Further Information**

### **Where can I get more information?**

Media releases and updates can be found at the IPA website  
[www.publicaccountants.org.au](http://www.publicaccountants.org.au).

Please contact Reece Agland, ph (03) 8665 3115 or  
reece.agland@publicaccountants.org.au, to discuss your particular queries or  
circumstances.

Remember, we're here to help!

### **Useful Links**

Australian Securities and Investments Commission (ASIC) –  
<http://www.asic.gov.au/asic/asic.nsf>

Members who wish to keep abreast of the latest ASIC development should register for  
automatic ASIC update at:  
[http://www.asic.gov.au/asic/asic.nsf/byheadline/ASIC+SMSF+auditor+update?openDocu  
ment](http://www.asic.gov.au/asic/asic.nsf/byheadline/ASIC+SMSF+auditor+update?openDocument)