

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (a)

Submission No. 236

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The Institute of
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in Australia

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The Secretary
Senate Superannuation and Financial Services Select Committee
Parliament House
Canberra ACT 2600

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SUBJECT: AUDIT OF SMALL SUPERANNUATION FUNDS / APRA USE OF EXTERNAL AUDITORS

Thank you for the invitation to provide a Submission in response to the evidence given by APRA on 25 June 2001 and in consideration of the NIA's 28 June 2001 submission. Please find below a supplementary submission by The Institute of Chartered Accountants in Australia (the Institute) to the Committees inquiry on terms of reference part a. prudential supervision and consumer protection for superannuation, banking and financial services. The submission follows initial discussions with Senators Watson and Sherry on 10 July 2001.

Audits of Small Superannuation Funds

We agree with the broad thrust of the NIA's concerns that APRA allegations on audit practices are one sided. APRA rarely expresses concerns with the Institute and has not requested that we investigate auditors for failure to do a proper audit. Numbers quoted 60 out of 200,000 also seem to be quite low and therefore not typical.

The Institute believes that the registered company auditor structure is the best way to ensure that auditors are appropriately qualified and have experience, however this is subject to the agreed government reforms to introduce audit competency regime. Such a regime would incorporate the Institute's current ethical and professional requirements including mandatory independent quality review and compliance with auditing standards.

We are surprised that the NIA believes that an registered company auditor audit would cost more than a non registered company auditor's audit, as the requirements to conduct an audit of a small superannuation fund audit is no different to any other audit. All are required to be conducted in accordance with auditing standards and require the same expertise. Audit Practice Statement 1 covers the audit of financial statements and requires that all audits be conducted in accordance with the basic principles and procedures. In addition to the standards there are guidance statements which provide guidance on how the principles are to be applied.

As discussed at our informal meeting with Senators Watson and Sherry on 10 July, the Institute would be delighted to participate in a 'Round Table' conference with the committee and others who have an interest in the audit of small superannuation funds.

Secretariat/President/Correspondence/Audit of Small Super 24.7.01

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Use by APRA of external auditors

As discussed at our 10 July 2001 meeting, we believe that APRA's comments on their use of external auditors requires some clarification. We disagree with the APRA observation that auditors are 'generally reluctant to express a view of the adequacy of (risk management) systems' SFS 1267. We suggest that APRA's later comments on the "specific and term of reference for their work" done by select auditors for APRA in the Banking sector is a better reflection of the comfort that APRA gains from external auditors. External auditors are more than happy to assist APRA in its prudential supervisory role, provided that the work requested is specific, rather than a vague general request to inform APRA of anything that APRA might need to be aware of.

Subject to industry consultation and agreement that benefits exceed the costs, the Institute would support APRA requiring external auditors of major APRA regulated superannuation funds to provide a similar service to that currently existing in the banking sector.

Review of AAS 25

As requested we have separately forwarded a copy the Institute's proposed revisions to accounting standard AAS25 Accounting for Superannuation Plans. We are hopeful that the Australian Accounting Standards Board will issue this as a standard in time for use for the year ended 30 June 2002. In the meantime we will encourage members to begin using the proposed standard as soon as practical.

We will shortly seek Treasury to make the SIS changes to facilitate the use of the standard.

Should you wish to discuss any of the matters raised further, please do not hesitate to contact Keith Reilly (ph) 02 9290 5703, (fax) 02 9262 6854, (email) keith@icaa.org.au or Susan Orchard on (ph) 03 9502 4371, (fax) 03 9502 4372, (email) susanorch@optusnet.com.au.

Yours sincerely



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