

# CHAPTER 1

## THE INQUIRY

### Background to the inquiry

1.1 This is the Third Report which the Select Committee on Superannuation and Financial Services has produced under a reference it was given when the Senate agreed on 22 September 1999 to establish the Committee with effect from 11 October 1999. The reference was:

- (a) prudential supervision and consumer protection for superannuation, banking and financial services.

1.2 On 20 August 2001, the Committee tabled its First Report on that term of reference.<sup>1</sup> The First Report addressed the adequacy of the regulatory framework. On 30 August 2001, the Committee tabled its Second Report on the same term of reference.<sup>2</sup> The Second Report addressed the outcomes of the Committee's inquiry into five case studies.

1.3 In both reports the Committee indicated that it had some concerns with the standard of auditing, and foreshadowed the holding of a roundtable to discuss issues relating to the auditing of superannuation funds.

1.4 The Committee took this step because, in the wake of recent corporate collapses and the mismanagement of some superannuation funds, it was concerned to ensure that trustees, fund managers and regulators could have confidence in the standard of audit reports and rely on them as one mechanism which could give early warning of potential fund failure.

1.5 The Committee wants to ensure that the bar for not only trustees, but also auditors, fund managers and administrators, is raised to a level at which the whole community can have complete confidence in the safety of their superannuation savings and their retirement incomes. As superannuation is compulsory, it is the view of the Committee that it cannot be treated in the same way as a commercial company, such as a mining company. Ensuring that the auditing of superannuation funds is conducted at the highest possible standard is one of the key features of an effective governance framework.

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1 Senate Select Committee on Superannuation and Financial Services *Prudential Supervision and Consumer Protection for Superannuation, Banking and Financial Services: First Report*, August 2001.

2 Senate Select Committee on Superannuation and Financial Services *Prudential Supervision and Consumer Protection for Superannuation, Banking and Financial Services: Second Report – Some Case Studies*, August 2001.

1.6 This report presents the results of that roundtable.

### **Conduct of the roundtable**

1.7 The Committee invited representatives from the national regulators of superannuation entities – the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO) – to participate in the roundtable. Key professional bodies, namely the Auditing and Assurance Standards Board, CPA Australia, the Institute of Actuaries of Australia, the Institute of Chartered Accountants in Australia (ICAA), and the National Institute of Accountants (NIA), were also invited. Two individuals with specialist expertise, Professor Tony Harris and Mr John Shanahan, also attended, as did a representative from the Australian National Audit Office (ANAO).

1.8 The Committee conducted the roundtable at a public hearing on Thursday 23 August 2001 at Parliament House in Canberra.

1.9 Because of constraints of time, only seven submissions were received.<sup>3</sup> A list of all organisations which made submissions is at **Appendix 1**. A list of witnesses who attended is at **Appendix 2**. Tabled documents and exhibits received in connection with the inquiry are at **Appendix 3**.

### **Issues considered at the roundtable**

1.10 The aim of the hearing was primarily to explore issues associated with the auditing of superannuation funds, including the following issues which were circulated as a basis for discussion:

- **the adequacy of auditing and accounting standards** - What are community expectations of auditors? Are auditors doing enough to meet those expectations?
- **the adequacy of reporting requirements under the *Superannuation Industry (Supervision) Act 1993 (the SIS Act)*** – What are the obligations on auditors? Are these adequate? How can they be enforced more effectively? Should these obligations be extended to include reporting directly to the regulator? How can audit independence be assured?
- **the nature of audit reports** – Should audit reports include a risk assessment? should they be prepared more frequently? Should they include ancillary reports such as actuarial reports?
- **the reliability of audit reports** – Are the regulators able to rely on audit reports to provide early warning of potential fund failure? Should the regulators make more use of external audits?

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3 Submissions on auditing were received from the NIA (Submission No 224), ICAA (Submission Nos 236 and 241), APRA (Submission Nos 237 and 239), Mr Tony Harris (Submission No 238) and the ATO (Submission No 240).

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- **the role of professional bodies** – How can they ensure adherence by their members to ethical standards? How can they raise the overall standard of the auditing profession?
  - **the qualifications and experience required for auditors of small, medium and large superannuation funds** – What qualifications are currently required? Are they adequate?

### **Structure of the report**

1.11 Chapter 2 sets out the current statutory framework for auditors of superannuation funds, including their role, mandatory qualifications, reporting obligations and the available remedies where they have not fulfilled their obligations.

1.12 Chapter 3 considers the first two issues discussed at the roundtable, namely whether there is an ‘expectation gap’ concerning auditors of superannuation funds and the adequacy of current reporting requirements under the SIS Act.

1.13 Chapter 4 considers the nature and reliability of audit reports, including whether such reports should include risk assessments, whether they should be conducted more frequently and whether they should include a wider range of information.

1.14 Chapter 5 considers the role of the professional bodies in regulating superannuation, and the qualifications and experience required of auditors.

### **Acknowledgments**

1.15 The Committee is grateful to the organisations and individuals who attended the roundtable and in some cases made written submissions relevant to the issues being explored. The Committee also acknowledges the assistance provided by staff in the Committee Secretariat, especially the Inquiry Officer, Louise Gell.

