REGULATION IMPACT STATEMENT

SMSF Auditor Registration

October 2011

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1. Background

Self managed superannuation funds (SMSFs) are one of the five main fund types in the Australian superannuation system. An SMSF is a superannuation entity that has less than five members, all of whom are generally trustees or directors of the corporate trustee. This means that SMSFs are unique in that the members manage their own superannuation savings and are responsible for meeting all legal obligations as trustee of their fund. This gives all members the ability to be involved in the decision making process and exercise some control over the management of the fund.

The closely-held nature of SMSFs requires a different regulatory approach to that for other superannuation funds. Most superannuation funds are subject to prudential regulation by the Australian Prudential Regulation Authority (APRA) to ensure that trustees act in the best interest of members. SMSFs, on the other hand, are regulated by the Australian Taxation Office (ATO) using a compliance-based approach. The ATO has been regulating SMSFs since 1999 and works to promote high level of voluntary compliance with regulatory and taxation requirements by SMSFs. ATO regulation includes assisting trustees to establish and manage their funds, checking that SMSFs are complying with the superannuation laws, taking enforcement action (if necessary) when breaches of the law are detected and checking that approved auditors perform their duties to the required standard.

At 30 June 2011, there were almost 460,000 SMSFs, representing 99 per cent of all superannuation funds. SMSFs hold over $418 billion or 31.2 per cent of total superannuation assets ($1.34 trillion).[1]

The SMSF sector is also the fastest growing superannuation sector. The average asset balance of an SMSF has grown from around $476,000 in June 2004 to $888,000 in June 2010. In June 2004, 42.4 per cent of SMSFs had an asset value of less than $200,000 compared to only 24.2 per cent of all SMSFs in June 2010.[2]

Given the size of the SMSF sector, it is not possible for the ATO to audit every SMSF each year. Consequently, SMSFs are required under the SIS Act to appoint an approved auditor to conduct an annual financial and compliance audit. Approved auditors fulfil an important role in providing assurance to the Government and general public that SMSFs are compliant with the law and are using the superannuation tax concessions for genuine retirement income purposes. As such, it is vital that auditors have the competency and independence to conduct an audit that provides this assurance.

2. Problem

There are approximately 11,500 SMSF approved auditors. Currently, under the SIS Regulations an approved auditor is:

- a registered company auditor;

[1] APRA Quarterly Superannuation Bulletin June 2011, p. 7, Available: http://www.apra.gov.au/Super/Documents/Super%20Quarterly%20Performance%2020110630.pdf

[2] ATO SMSF Statistical Report June 2011, Available: http://www.ato.gov.au/superfunds/PrintFriendly.aspx?ms=superfunds&menuid=49554&doc=/content/00290021.htm&page=14&H14

- a member or fellow of one of five specified accounting professional bodies (CPA Australia, the Institute of Chartered Accountants in Australia (ICAA), the National Institute of Accountants, the Association of Taxation and Management Accountants and the National Tax and Accountants Association);

- a SMSF specialist auditor of the SMSF Professionals Association of Australia; or

- the Auditor-General of the Commonwealth, a state or a territory.

Legislative obligations for SMSF auditors are set out in the SIS legislation. There are no legislative obligations, in the SIS or other legislation, in relation to their competence to conduct SMSF audits, their independence from the SMSF trustees or the maintenance of their knowledge through ongoing training. Some auditors are subject to minimum competency standards placed on them by their professional association. The Joint Accounting Bodies (JAB) has introduced competency standards for their members that conduct SMSF audits. The JAB is comprised of CPA Australia, ICAA and the Institute of Public Accountants (IPA) (formerly the National Institute of Accountants). However, some approved auditors may not be subject to competency standards. Consequently, there is not a level playing field in relation to the standard of service provided by approved auditors and there is no assurance of approved auditors' competency.

The Government is concerned about auditor competency in relation to the compliance audit. In addition to the financial audit, auditors are required to detect and report any contraventions of the SIS legislation by SMSF trustees. In the absence of competency standards, there is no guarantee that SMSF auditors have adequate knowledge of the SIS legislation or the ability to apply their knowledge to detect contraventions. The ATO has identified the following issues with a number of SMSF auditors:

- little or no evidence that an audit was performed;

- failing to adequately deal with independence obligations; and

- lack of knowledge in relation to the SIS legislation and professional obligations.

In 2009-10, the ATO's review of high-risk auditors identified that 17 per cent of this group had inappropriate or no safeguards for audit independence risks. In addition, they identified that 29 per cent of these auditors were also the SMSF's accountant and had prepared a material part of its financial statements, and 28 per cent exhibited evidence of a relationship or conflict of interest that might impact the auditor's ability to be independent.

Concerns about SMSF auditors' knowledge of the SIS legislation are heightened by the large numbers of SMSF auditors conducting only a few SMSF audits. For example, approximately 67 per cent of SMSF auditors audit fewer than 20 SMSFs per annum. Twenty SMSF audits per annum represent approximately six per cent of full-time working hours.[3] Consequently, there is little incentive for these auditors to keep up to date with changes in the SIS legislation or to be sufficiently familiar with all of the SMSF trustee's obligations.

In 2009 the Government commissioned Mr Jeremy Cooper and a panel of experts to undertake a review into the governance, efficiency, structure and operation of Australia's superannuation system (the Super System Review, or SSR). The Government released the SSR final report on 5 July 2010.

[3] Industry estimates suggest that an SMSF audit takes five hours, on average.

On 16 December 2010, the Government announced 'Stronger Super' - a comprehensive package of reforms in response to the recommendations of the SSR. The Government accepted the SSR recommendation to:

a) appoint the Australian Securities and Investments Commission (ASIC) as the registration body for approved auditors and give ASIC the power to determine the qualifications (including professional body memberships as appropriate) required for eligibility to be registered, set competency standards, develop and apply a penalty regime including the ability to deregister approved auditors. The registration requirements for approved auditors should be linked to minimum ongoing competency and knowledge standards; and

b) task the ATO to police the approved auditor standards and enable information to be appropriately shared between ASIC and the ATO so as to carry out their roles effectively.

3. OBJECTIVES

The Government's aim is to improve the reliability of the SMSF audit by ensuring that SMSF auditors have the requisite competency to conduct SMSF audits, and to provide a framework within which it can be assured that SMSF auditors apply these standards on an ongoing basis. This will improve the integrity of the SMSF sector by providing assurance that contraventions by SMSF trustees are being detected and reported.

Registration will also aim to identify, formally recognise and enable the provision of tailored support to those SMSF auditors that are currently producing high quality audits. It will seek to lift the standards of those that lack the competency to conduct an SMSF audit. If auditors are unwilling or unable to comply with the competency standards they will not be able to continue conducting SMSF audits.

The Government recognises that some SMSF approved auditors have considerable experience and expertise in conducting SMSF audits. The Government aims to minimise the compliance burden on these auditors in the transition from the current arrangements to the new registration system.

4. OPTIONS

Three options are presented below for the registration requirements to apply to SMSF auditors. Option A was originally presented to the SMSF working group, an industry group established to consult on the Stronger Super SMSF reforms, and based around an exam to assess the competency of all SMSF auditors. The model set out in Option B was proposed by the JAB to provide streamlined registration for members of the JAB and recognise the competency standards that they are subject to through their professional membership. Option C is a hybrid model that seeks to balance the advantages and disadvantages of the first two models.

Option A: Uniform national competency exam

Under Option A, an auditor would need to meet the following criteria to register as an SMSF auditor:

- hold a tertiary accounting qualification that includes an audit component;
- meet a fit and proper test;

- hold professional indemnity insurance;
- have 450 hours of SMSF audit experience in the three years prior to registration; and
- pass a competency exam that would be based on competency standards developed by ASIC in consultation with industry. The competency exam would test their audit and SIS knowledge.

The auditor would only be required to declare that they are a fit and proper person, and would not need to provide any documentation. ASIC may request further information or documentation if they have reason to believe the auditor has made a false declaration. In determining whether an auditor is a fit and proper person, ASIC will take into account whether the auditor has been disqualified as an SMSF trustee, disqualified or suspended as a registered company director, convicted of a dishonesty offence, banned from the financial services regime, disqualified as an auditor of a superannuation entity, bankrupt in the last three years or disqualified as a tax agent or registered tax practitioner.

Registered SMSF auditors would be required to complete 120 hours of Continuing Professional Development (CPD) training every 3 years, including at least 30 hours on superannuation with eight hours on audit. In addition, they would be required to pass a refresher competency exam every three years.

Existing auditors will be able to register with ASIC from 1 July 2012 and sit the competency exam from 1 January 2013. Existing SMSF auditors that register prior to 1 January 2013 would not be subject to the hours-based test and would not need to have passed the competency exam until 30 June 2013. Existing SMSF auditors are auditors that have signed off on an SMSF audit in the 12 months prior to 1 July 2012.

From 1 July 2012 until 30 June 2013 the current eligibility rules for approved auditors would overlap auditor registration.

Option B: Streamlined registration for members of professional associations

Under Option B, there would be streamlined registration for members of the JAB.

The model set out in Option A would apply to auditors that are not members of these professional associations. Those auditors that are members would be eligible to register provided that they:

- hold a tertiary accounting qualification that includes an audit component;
- meet a fit and proper test;
- hold professional indemnity insurance; and
- have completed an SMSF audit course provided by the professional associations in the three years prior to registration.

Members of the professional associations would not be subject to the initial competency exam. Members that that have not signed off on an SMSF audit in the 12 months prior to the commencement of registration would be subject to a reduced hours-based test of 100 hours of SMSF audit experience in the 12 months prior to registration. The CPD requirements set out in Option A would also apply in Option B. However, members of the professional associations would be exempt from the three-yearly competency exam.

Option C: Hybrid model

Option C is a combination of Options A and B. An auditor would need to meet the following criteria to register as an SMSF auditor:

- hold a tertiary accounting qualification that includes an audit component;
- meet a fit and proper test;
- hold professional indemnity insurance;
- have 300 hours of SMSF audit experience in the three years prior to registration; and
- pass a competency exam that would be based on competency standards developed by ASIC in consultation with industry. The competency exam would test their audit and SIS knowledge.

The CPD requirements would be the same as under Options A and B. However, there would be no three-yearly competency exam. Instead SMSF auditors would be required to complete an SMSF knowledge refresher course every three years as part of their 120 hours of CPD.

All existing auditors would be exempt from the hours-based test.

Existing auditors will be able to register with ASIC from 1 July 2012 and sit the competency exam from 1 January 2013. Existing SMSF auditors that register prior to 1 January 2013 would not need to have passed the competency exam until 30 June 2013.

Existing auditors would not be required to pass the competency exam if they have signed off on 20 or more SMSF audits in the 12 months prior to 1 July 2012, provided they register by 1 January 2013.

From 1 July 2012 until 30 June 2013 the current eligibility rules for approved auditors would overlap auditor registration.

5. Impact analysis

Some of the proposed registration requirements are common to all three options:

- tertiary accounting qualification that includes an audit component;
- professional indemnity insurance;
- fit and proper test; and
- CPD requirements.

SMSF auditors will incur costs to meet these requirements. However, these costs will not be discussed because SMSF approved auditors already bear these costs under the current arrangements. Currently, an SMSF approved auditor is a member of an approved professional organisation or a registered company auditor. Membership of these organisations and registration as a company auditor requires an auditor to have a tertiary accounting qualification, hold professional indemnity insurance and undertake the same CPD training as is required under the proposed options. Including these requirements in the SMSF auditor registration requirements will formalise that all SMSF auditors are expected to meet these requirements.

There will generally be no costs involved with meeting the fit and proper test. SMSF auditors will be required to declare that they are a fit and proper person. ASIC will only request further information if they have reason to believe that an SMSF auditor has made a false declaration. If this occurs, then the SMSF auditor may be required to obtain a police check, which would cost approximately $30.

These requirements will provide significant benefits in assuring that SMSF auditors are sufficiently competent to undertake SMSF audits. The tertiary qualification requirement will ensure that SMSF auditors have a high-level of training in accounting and audit, and consequently are able to undertake the financial audit of the fund. The CPD requirements will ensure that SMSF auditors undertake ongoing training to maintain their knowledge and skill in relation to undertaking audits, and to keep up to date with changes to the SIS legislation. The fit and proper test will determine if SMSF auditors are proven to be honest and trustworthy so that they can be relied upon to detect and report contraventions of the SIS legislation.

Under each option, there will also be costs to ASIC and the ATO associated with building and operating the registration system. These costs will be fully offset by the collection of auditor registration fees and an increase in the SMSF Levy. The final costs of implementing SMSF auditor registration are not known at this time, however it is estimated that SMSF auditors will be subject to the following fee schedule:

Initial Registration Fee	Online Application	$300
Annual Renewal Fee	Online Renewal	$130

SMSF trustees will be subject to an approximately $14 increase in the SMSF Levy, which they pay annually when submitting their annual return. The SMSF Levy is designed to offset the costs of regulating the SMSF sector.

Option A: Uniform national competency exam

Option A creates a level-playing field between SMSF auditors by applying registration requirements consistently to all auditors. A uniform national competency exam would be a single objective measure of auditor knowledge and ensure that all auditors meet the same minimum standards. SMSF auditors will be subject to a fee in order to undertake the exam. The fee would be expected to be $320 and would be confirmed when the costs of implementing the exam are known.

While an exam would test knowledge, it does not test an auditor’s ability to apply that knowledge. Consequently, the hours-based test ensures that SMSF auditors have experience in applying knowledge of the SIS legislation and trustee requirements to SMSF audits. Although this imposes a cost on new SMSF auditors through having to gain experience working with a more senior auditor, it is not unreasonable to expect auditors to undergo supervision before signing off on audits without any oversight. The requirement of 450 hours experience in SMSF audits over three years represents less than ten per cent of full time working hours or approximately 30 SMSF audits per year.

The ATO’s SMSF auditor compliance activities will target high-risk auditors to assess whether they comply with the minimum competency requirements on an ongoing basis. A three-yearly refresher competency exam would reinforce the ATO’s compliance activities by testing that all SMSF auditors, not just high-risk auditors, continue to meet the minimum competency standards on an ongoing basis. The three-yearly exam would also provide an incentive for them to keep up to date with changes to the SIS legislation. There will be both direct and indirect costs to SMSF auditors from the exam, from a cost recovery fee and the time spent undertaking the exam. The fee would be expected to be $150 and would be confirmed when the costs of implementing the exam are known. SMSF auditors undertaking the required CPD hours should not need to spend time preparing for the exam.

A one-year transitional period would allow existing SMSF auditors time to meet the registration requirements and to move to the new system. This has the dual benefit of spreading the compliance costs for SMSF auditors over time and also ensuring that there continues to be enough approved auditors to conduct SMSF audits during the transition from the current arrangements to the new registration system.

Option A aligns the registration requirements of SMSF auditors with the proposed licensing requirements for financial advisers. Licensing requirements for financial advisers are being reviewed as part of the *Future of Financial Advice* reforms and it is proposed that financial advisers would be required to pass an exam to obtain an Australian financial services licence and would be subject to a regular knowledge review.

In trying to ensure consistency across all SMSF auditors, Option A makes no allowance for experienced SMSF auditors with a high-level of competency. These highly-competent auditors, often those that specialise in SMSF audits, would be subject to the same requirements, and therefore the same compliance costs, as auditors with little experience, competence and knowledge in relation to conducting SMSF audits.

Option A also gives no recognition to industry efforts to raise the standards of SMSF auditors. Professional accounting organisations have sought to improve the competency of SMSF auditors by developing competency standards for conducting SMSF audits, providing education to their members and conducting Quality Assurance (QA) reviews of members' audit work.

Option A relies solely on an exam to test competency without any initial SMSF audit education requirements. This disadvantages those that don't perform well under exam conditions. It also does not assess an auditor's ability to use professional judgment in applying knowledge to practical situations.

Option B: Streamlined registration for members of professional associations

Option B takes into account efforts by industry organisations to raise the competency standards of their members. It provides streamlined registration for members of the JAB, who are subject to the competency requirements developed by their professional association. JAB members are also subject to mandatory SMSF audit education and five-yearly QA reviews. The JAB has indicated that it will consider increasing QA reviews to three-yearly for SMSF auditors. Almost 90 per cent of SMSF approved auditors are members of the JAB. SMSF auditors that are not a member of the JAB will incur a fee to undertake the competency exam.

The lower experience requirement of 100 hours in the previous 12 months reduces the compliance cost on new SMSF auditors that are members of JAB. This experience requirement represents approximately five per cent of full time working hours or approximately 20 SMSF audits. Other SMSF auditors would still be subject to the higher compliance cost of 450 hours in three years requirement.

Option B includes a mandatory education component prior to registration. This would ensure that SMSF auditors have training in how to conduct SMSF audits. It would prevent the registration of those that rote learn for an exam but have no understanding of how to apply professional judgement when assessing compliance with the SIS legislation. SMSF auditors would incur a cost to undertake this course, however members of JAB are already subject to this requirement through their professional membership and so will incur no additional cost. SMSF courses provided by the professional associations range from approximately $200 to $800.

Membership of the JAB does not guarantee SMSF audit competency. Auditors subject to ATO compliance action include members of professional associations. Although the JAB have developed SMSF audit competency standards for their members, they are limited in their ability to enforce them. The JAB have advised that they do not know which of their members undertake SMSF audits and so cannot ensure compliance with their standards or requirements. Concerns have also been raised about the effectiveness of their QA reviews and their ability to increase their frequency. QA reviews are open to abuse because they are peer reviews. In addition, they are costly and time-consuming for the auditor being reviewed and for the auditor conducting the review. It is questionable whether there would be sufficient resources to conduct three-yearly reviews.

SMSF auditors that are not a member of JAB will be subject to the three-yearly refresher exam and the costs involved as outlined in Option A. JAB members could be subject to more frequent QA reviews by their professional association, which would involve increased costs. It is estimated that a QA review costs $2,000 on average.

Option B doesn't address the concern of auditors that conduct a low number of SMSF audits. There is no evidence that JAB members are not among the auditors conducting less than 20 SMSF audits in a year nor that non-JAB members are not among the auditors that specialise in SMSF audits. This option could allow JAB members conducting low numbers of audits to register without any assessment of their competency.

Option B imposes inconsistent requirements on SMSF auditors by differentiating between JAB and non-JAB members. Consequently it does not create a level-playing field or set a minimum standard across all SMSF auditors. It also raises competition concerns by reducing compliance costs for JAB members. This may encourage auditors to become members of one of the JAB in order to access streamlined registration and could cause detriment to other professional accounting organisations.

The system for assessing competency set out in Option A would still need to be developed for non-JAB members. This could result in diseconomies of scale from setting up an exam for a small number of auditors.

Option B doesn't include any ongoing assessment of competency and relies on the ATO's risk-based auditor compliance program to detect any issues with SMSF auditor competency. Consequently, there is a greater risk of competency issues going undetected. SMSF auditors may be able to obtain sufficient knowledge to be registered but not maintain this knowledge over time.

Option C: Hybrid model

Option C focuses the registration requirements on the auditors that are of most concern, that is those conducting less than 20 SMSF audits in a year. Twenty SMSF audits represents approximately six per cent of full time working hours. Auditors conducting only a few SMSF audits in a year have little incentive to keep up to date with the SIS legislation because SMSF audits represent only a small part of their business. Also, ATO data from July 2008 to June 2011 indicates that auditors who conducted 20 or less audits in a year accounted for 84 per cent of auditors subject to disciplinary action by the ATO, including 78 per cent of those subject to serious sanctions. Approximately 67 per cent of SMSF approved auditors conduct less than 20 SMSF audits in a year. Option C sets a uniform assessment of competency for these auditors, regardless of professional membership.

If the minimum number were reduced to 15 SMSF audits, approximately 62 per cent would need to sit the exam and if the minimum number were 5 SMSF audits, approximately 42 per cent would need to sit the exam.

Option C includes a lower experience requirement than under Option A, reducing the compliance costs for new SMSF auditors. However, in contrast to Option B, it extends the experience requirement to three years to ensure that SMSF auditors have a broader range of experience from working on SMSF audits over a longer period. All new SMSF auditors will be subject to the reduced experience requirement. Option C includes a mandatory SMSF knowledge refresher course in the CPD requirements. Integration with the CPD requirements minimises compliance costs for SMSF auditors by not imposing any additional ongoing education or assessment requirements on top of CPD. The mandatory SMSF audit component would encourage SMSF auditors to maintain their knowledge over time.

Option C transitions experienced auditors into the system but applies consistent requirements on all auditors on an ongoing basis, creating a level-playing field over the long term.

Option C does not provide recognition of professional association membership. Industry involvement would include providing input into the development of the competency standards and competency test and an education role in the long term. Also, auditor registration would enable the JAB to identify which of their members are conducting SMSF audits and would therefore, be able to ensure that they comply with the JAB SMSF auditor competency requirements.

6. Consultation

The SMSF auditor registration measure was announced on 16 December 2010 as part of the Stronger Super reform package. Following that announcement, the Government established the Stronger Super Peak Consultative Group, comprising representatives of peak industry, employer, employee and consumer groups, to provide broad, high level advice on the design and implementation of the Stronger Super reforms. In addition, an SMSF working group was established to provide technical input on those reforms relating to SMSFs.

The SMSF working group comprised superannuation, accounting and financial advice industry representatives. The Treasury, ASIC and the ATO were also represented on the working group. The working group met six times to discuss the SMSF reforms. In relation to SMSF auditor registration, separate meetings were also held with the JAB and SPAA.

Issues papers presented to the SMSF working group were released on the Stronger Super website for public consultation. Consultation closed at the end of May 2011.

Stakeholders were broadly supportive of the objectives of SMSF auditor registration, including that registration should set a minimum standard of competency for SMSF auditors and increase the confidence that can be placed in the SMSF audit. However, differing views were expressed on the registration requirements that should be imposed on SMSF auditors.

Option A was originally presented to the SMSF working group. The model set out in Option B was proposed by the JAB. The JAB's view was that the registration requirements need to take into account professional association membership, given that JAB members are subject to competency standards and QA reviews.

Many of the SMSF working group members were supportive of JAB's model. However, they raised some concerns with the model, including that the experience requirement was set too low and that

JAB would need to provide assurance that their requirements and QA processes were aligned and of a high standard. Some SMSF working group members disagreed with the competency exam requirements, stating that an exam is not the best way to test audit competency because it tests only knowledge and not the ability to exercise professional judgment.

Some members of the SMSF working group, however, favoured the model set out under Option A. Their view was that this model would create a level-playing field between all SMSF auditors by imposing the same requirements regardless of professional membership or experience. These members also questioned the assurance that could be provided by JAB's enforcement of their standards.

Public submissions were supportive of raising the standard of SMSF auditor competency through registration but were concerned that competent auditors would be burdened by the registration requirements. They favoured providing recognition of professional association membership and SMSF audit experience through the registration requirements.

The Hybrid Model was developed as a compromise between the views expressed in relation to the other models. It provides recognition of industry standards, while focussing registration requirements on auditors that are of most concern. The Hybrid Model creates a level-playing field for all SMSF auditors. Option C was not considered by the full SMSF working group, however meetings were held with individual members of the working group regarding the model, in particular the JAB. The JAB have indicated that they support the model but believe that the threshold for exemption from the competency exam should be lower than 20 or more SMSF audits in the 2011-12 income year. ASIC are strongly of the view that all SMSF auditors should be required to sit the competency exam because it would create a level playing field. The 20 or more threshold seeks to balance these competing views and meet the objective of raising competency standards while minimising the compliance burden on experienced auditors.

7. CONCLUSION AND RECOMMENDED OPTION

SMSF auditor registration seeks to ensure that SMSF auditors have a minimum level of competency to perform SMSF audits, and can be relied upon to detect and report contraventions of the SIS legislation. However, implementation of this measure involves a trade-off between creating a level-playing field for SMSF auditors and minimising the compliance burden on highly competent auditors.

The Hybrid Model presented in Option C is recommended because it strikes a balance between these two competing factors by targeting registration requirements where there is most concern or uncertainty about auditor competency. The Hybrid Model requires auditors to have training, experience and to demonstrate their knowledge by passing a competency exam in order to be registered as an SMSF auditor. However, experienced auditors will be exempt from the exam requirement. Auditors conducting a low number of SMSF audits a year are of particular concern because they have little incentive to obtain and maintain adequate knowledge of the SIS legislation, and represent approximately 84 per cent of those SMSF auditors subject to disciplinary action by the ATO.

The Hybrid Model, therefore, recognises experienced SMSF auditors and limits the compliance burden on them by exempting them from the competency exam.

The transitional period, including the competency exam exemption for some SMSF auditors, under the Hybrid Model reduces the compliance burden on SMSF auditors by providing them time to meet the registration requirements. It also transitions SMSF auditors into the system, ensuring that SMSF audits can continue to be conducted during the move to the new arrangements. The advantage of the Hybrid Model is that once the transitional period has ended, there exists a level-playing field for all new entrants to the system. This means that all new SMSF auditors will need to meet the same benchmark to conduct SMSF audit and there will be assurance of a minimum level of competency across the sector.

The Hybrid Model, like the other options, seeks to ensure that SMSF auditors maintain their knowledge and competency over the long-term. However, unlike the other options, it minimises the compliance burden by incorporating all ongoing training requirements into the CPD requirements. It does not test ongoing competency, however ATO compliance activity will aim to identify and rectify any issues with auditor competency.

8. IMPLEMENTATION AND REVIEW

The registration requirements for SMSF auditors will be set out in legislation. Draft legislation is expected to be released for public comment in late 2011 or early 2012.

ASIC will establish an external reference group of industry representatives prior to 1 July 2012 to determine the competency standards that will form the basis of the competency exam and ongoing quality review by the ATO. SMSF auditor registration will commence on 1 July 2012, with the competency exam available from 1 January 2013. Existing SMSF auditors exempt from the competency exam will be eligibile for full registration from 1 July 2012. Other existing SMSF auditors will have until 30 June 2013 to pass the competency exam, provided they provisionally register before 1 January 2013. The existing eligibility criteria for SMSF auditors will operate concurrently with the registration system until 30 June 2013 to transition auditors into the new system.

The ATO will be responsible for monitoring SMSF auditors' ongoing obligations under the registration system. The ATO will use a risk-based approach to auditor compliance, as they do currently in their SMSF approved auditor compliance activities. Where issues are detected with an SMSF auditor's competence, the ATO will refer the case to ASIC to determine whether any disciplinary action is necessary.

Ongoing monitoring of these reforms will be undertaken by the Treasury, ASIC and the ATO to ensure that the reforms are achieving their objective and whether any further reforms are necessary. The outcomes of the new registration system will be formally assessed two years after full implementation.