The Australian Financial Review
Wednesday 13 June 2012 • www.afr.com

Auditors think twice under onerous regulation

DIY super
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The number of DIY auditors is believed to be fewer than 9000 as new registration requirements frustrate practitioners.

Thousands of do-it-yourself super funds could be looking for a new auditor from July 1 if the trend in auditors leaving the sector continues.

By the time many funds seek to have their 2011-12 financial year audit conducted – which must be lodged by April-May next year – there could be 20 per cent less DIY fund auditors than five years ago says Craig Fishburn, a director of s Superannuation Auditors Pty Ltd.

When the government's super system review – the Cooper review – analysed the super section back in 2009, one if its observations was that the then $317 billion DIY fund sector with its 349,000 funds was being serviced by an estimated 11,500 approved auditors.

While the average number of audits per fund was about 35, there were biases at either end of this average, with 51 per cent of auditors, or about 5870, performing fewer than five audits a year and 2.3 per cent, or about 260 auditors, conducting more than 250 a year.

With the number of funds now up to 475,000, who between them manage about $420 billion in assets, the estimated number of auditors is believed to have declined to less than 9000.

There will be even fewer as the new year gets under way, suggests Fishburn, as auditors approach the January 2013 start of a new registration regime.

One of the new features in the 2011-12 annual DIY fund return recently released by the Australian Taxation Office is the scope to include a DIY fund auditor number. This number is proposed to be issued to all approved auditors by the Australian Securities and Investments Commission from next January when auditors can apply to be registered.

In the recent 2012-13 federal budget, the government announced a $10.7 million allocation over the next four years to ASIC to develop and maintain an online registration system for DIY fund auditors.

As part of the registration process, ASIC will develop a competency exam for auditors and be responsible for non-compliant auditors being deregistered.

The government will also provide funding to the ATO to police registered auditors, to check their compliance with competency standards set by ASIC and refer auditors to ASIC for enforcement action. These changes implement recommendations made by the Cooper review.

Fishburn says that ever since the recommendations there has been a decline in the number of accountants holding themselves out as DIY auditors. While no official numbers have been released, guesstimates put the decline so far at between 2500 to 3000 auditors.

Most of these are believed to be auditors who have previously reviewed fewer than five funds a year, although Fishburn says he has heard that accountants who conduct 20 to 30 audits a year have also been thinking twice about the trouble of going through the registration process. Many are likely to be local accountants who have tried to offer everything to their business clients.

As part of the registration procedure, they are likely to be expected to make declarations about the ongoing training they are doing, plus other considerations like the indemnity insurance they have that is specifically associated with the activity of DIY fund auditing. There will also be a focus on their independence as far as providing other DIY-super related services to clients.

Fishburn says he has noted an increase in the number of both trustees and accountants looking to develop new fund-auditor relationships.

Another related feature in the 2011-12 annual DIY fund report is an increase in the annual DIY fund supervisory levy, from $180 to $200, aimed at helping cover the costs of the new auditor regime.

This change was also announced in the federal budget and although it is yet to be legislated will apply to the 2011-12 financial year, having effect from July 1, 2011.

Fishburn says while many auditors have already decided how to approach the new regime, the next six months is likely to see others who are still hanging on to a small number of clients deciding whether or not to call it a day.

Aspects of the new regime they will also have to think about are the focus on auditor independence, where accountants who provide other services to DIY funds are discouraged from being involved in auditors. Some accountants with modest DIY fund clientele have sought to address this issue by having arrangements with similar-sized firms to audit the DIY fund of their clients while the other firm audits their DIY fund clients.

Fishburn says, however, that one thing many small accountants who are not involved in DIY super in a major way are likely to discover is that DIY fund auditing is increasingly becoming a more specialised activity, with each year the focus of the regulator changing as far as placing a different emphasis on provisions they want auditors to focus on. Things definitely don't stay the same in DIY fund auditing, he says.