

## 5. PRE-REQUISITES FOR REGISTRATION

501. This chapter focuses on the educational and professional qualifications and the level of practical experience that a person needs in order to obtain registration as a company auditor.

### CURRENT SYSTEM

502. A person (or firm) cannot be appointed auditor of a company unless the person (or, in the case of a firm, a partner in the firm) has been registered as a company auditor by the ASC. To obtain registration, the person must satisfy the educational and experience requirements set out in the Law and the Regulations.

503. Subsection 1280(2) of the Law provides that the ASC will register a person as an auditor if:

- (a) the person:
  - (i) is a member of the ICAA, the ASCPA or any other prescribed body;<sup>1</sup>
  - (ii) has tertiary qualifications in accountancy and commercial law; or
  - (iii) has other qualifications and experience that, in the opinion of the ASC, are equivalent to those mentioned above; and
- (b) the ASC is satisfied that the person has had the prescribed practical experience in auditing; and
- (c) the ASC is satisfied that the person is capable of performing the duties of an auditor and is otherwise a fit and proper person to be registered as an auditor.

504. Regulation 9.2.04(a) provides that the practical experience needed for registration as an auditor is work in auditing under the direction of a registered company auditor for a period of not less than three years, including appraising the operations of companies and forming opinions on matters specified in sections 331B,

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<sup>1</sup> Accounting bodies in Canada, Great Britain, New Zealand and the United States of America are prescribed.

331C, 331D and 331E of the Law.<sup>2</sup> In addition, at least one continuous year during the five years immediately before the date of the application must have been spent supervising audits of companies.

505. Regulation 9.2.04(b) provides that the ASC may accept other practical experience where it considers the other experience is equivalent to the practical experience set out in regulation 9.2.04(a). Paragraphs 365-415 of the ASC's Auditors Registration Manual indicate the matters that are to be considered by ASC staff when examining applications made under regulation 9.2.04(b). The Working Party understands the ASC's interpretation of 'or equivalent' experience has recently been modified to specify that only 25 per cent of time relating to audit experience requirements needs to be spent on work directly relating to company auditing. This is also to be regarded as a general guide only, subject to review and discretionary approval in marginal cases.

506. An application for registration as an auditor is to be made on Form 903A (see Appendix D for full details of the information that has to be disclosed in the application).

## **OVERSEAS POSITION**

507. The overseas jurisdictions whose requirements were examined by the Working Party all have educational requirements for registration as either an accountant or an auditor that are broadly equivalent to the Australian requirements.

508. Requirements for practical experience vary from jurisdiction to jurisdiction. In Canada, for example, the basic requirement for registration as a public accountant is membership of the Institute of Chartered Accountants in Ontario (ICAO). To become a member of the ICAO a person must have:

- (a) tertiary qualifications;
- (b) at least 30 months experience working for a chartered accounting firm, during which time a total of 2,500 chargeable hours must be accumulated (including a minimum of 1,250 in audit or review engagements); and
- (c) completed the ICAO's examinations.

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<sup>2</sup> These sections deal with issues such as whether the financial statements are properly drawn up [section 331B], matters concerning the consolidated accounts (if any) [section 331C], whether there are any defects, irregularities and omissions in the financial statements [section 331D] and whether the financial statements, and the auditor's report, are based on adequate information [331E].

## ISSUES

509. Since 1991, the greatest concern of public practitioners about registration of company auditors has been the inability of applicants from small and provincial firms to meet the experience requirements set out in regulation 9.2.04 of the Regulations.

510. The Commonwealth Government has recently received a number of representations from prospective auditors, who are either resident in provincial centres or members of small accounting firms, concerning the difficulty they are having in meeting the requirements on practical experience in auditing.

511. A number of submissions received by the Working Party have raised similar concerns.

512. The registration requirements that currently prevail were introduced with the commencement of the Co-operative Companies and Securities Scheme in 1982. Prior to that time, an accountant could be registered as a company auditor if he or she was a member of a recognised professional body or had appropriate educational qualifications and could satisfy a Companies Auditors Board<sup>3</sup> as to his or her general conduct and character and practical experience in accountancy.

513. It would seem that the introduction of practical experience requirements did not become a significant problem during the 1980s because the *Companies Act 1981* and associated State Codes:

- (a) grandfathered all pre-1982 registrants; and
- (b) replaced the requirement that all members of an auditing firm be registered company auditors with a requirement that at least one member of the firm be a registered company auditor.

514. As a result of the transitional provisions, there was a period of time immediately after 1982 in which there was less need for new partners of accounting firms to seek registration as auditors. However, with an increasing number of auditors registered before 1982 now retiring from public practice, many firms are finding that the remaining partners are experiencing difficulty in obtaining registration. It is said that this can be a particular problem in provincial communities where the numbers of companies may be such that no accounting firm has a substantial audit practice or at least one sufficient to generate the levels of practical experience expected of applicants for registration as auditors. The ultimate result could be that a region will be left without any registered company auditors.

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<sup>3</sup> A Public Accountants Registration Board in the case of New South Wales and Queensland.

515. Table 5.1 sets out the number of registered company auditors in each State and Territory and indicates whether their registration dates from the time of the Uniform Companies Acts/Ordinances, the time of the Co-operative Companies and Securities Scheme or since the commencement of the National Corporations Scheme.

**Table 5.1 — Registered Company Auditors as at 2 April 1997**  
*Scheme under which registration obtained<sup>4</sup>*

State or Territory	Uniform Companies Acts (ie before 1.7.83)	Co-operative scheme (ie 1.7.83 to 31.12.90)	National scheme (ie after 31.12.90)	Total — all schemes
New South Wales	2,476	866	246	3,588
Victoria	1,449	607	130	2,186
Queensland	760	235	58	1,053
Western Australia	500	155	60	715
South Australia	392	80	32	504
Tasmania	129	33	13	175
Australian Capital Territory	56	20	11	87
Northern Territory	10	24	5	39
Location not identified or Overseas	30	24	3	57
<b>Totals</b>	<b>5,802</b>	<b>2,044</b>	<b>558</b>	<b>8,404</b>

516. While the different registration requirements under the National Corporations Scheme and the Co-operative Companies and Securities Scheme were expected to, and indeed did, result in a lower number of registered company auditors than under the old Uniform Companies Acts, it is noted that the number of persons being registered as company auditors has continued to decline since the commencement of the National Corporations Scheme.

517. Table 5.2 compares the number of auditors registered each year during the last four years of the Co-operative Scheme with the number registered in the first six years of the National Corporations Scheme.

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<sup>4</sup> Although the Co-operative Companies and Securities Scheme commenced on 1 July 1982, auditors registered under the previous scheme were given until 31 December 1982 to apply to the NCSC for registration under the new scheme. Because of the number of applications received, it took some NCSC delegates until mid 1983 to process the applications. Accordingly, 1 July 1983 has been used as the starting point for statistics about the Co-operative Scheme.

**Table 5.2: Auditors Registered 1987-1996<sup>5</sup>**

State or Territory	Co-operative Scheme				National Scheme					
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>New South Wales</b>	<b>87</b>	<b>81</b>	<b>134</b>	<b>76</b>	<b>45</b>	<b>41</b>	<b>32</b>	<b>36</b>	<b>68</b>	<b>58</b>
Sydney metropolitan area	72	61	94	57	34	34	27	28	51	39
Other areas	15	20	40	19	11	7	5	8	17	19
<b>Victoria</b>	<b>45</b>	<b>59</b>	<b>54</b>	<b>44</b>	<b>27</b>	<b>38</b>	<b>26</b>	<b>21</b>	<b>22</b>	<b>20</b>
Melbourne metropolitan area	39	46	44	39	25	31	23	21	21	20
Other areas	6	13	10	5	2	7	3	0	1	0
<b>Queensland</b>	<b>19</b>	<b>22</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>4</b>	<b>8</b>	<b>20</b>	<b>12</b>	<b>12</b>
Brisbane metropolitan area	13	19	14	12	10	2	5	12	7	5
Other areas	6	3	4	5	6	2	3	8	5	7
<b>Western Australia</b>	<b>15</b>	<b>17</b>	<b>21</b>	<b>19</b>	<b>8</b>	<b>18</b>	<b>16</b>	<b>8</b>	<b>12</b>	<b>5</b>
Perth metropolitan area	14	17	17	18	7	17	15	8	10	5
Other areas	1	0	4	1	1	1	1	0	2	0
<b>South Australia</b>	<b>9</b>	<b>3</b>	<b>9</b>	<b>3</b>	<b>0</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>5</b>
Adelaide metropolitan area	9	3	8	3	0	8	6	5	6	5
Other areas	0	0	1	0	0	0	0	0	0	0
<b>Tasmania</b>	<b>1</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>3</b>
Hobart metropolitan area	0	2	2	3	1	0	4	2	0	2
Other areas	1	2	4	2	1	0	1	2	0	1
<b>Australian Capital Territory</b>	<b>8</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>
Canberra metropolitan area	8	2	2	1	3	3	2	3	1	2
<b>Northern Territory</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>
Darwin metropolitan area	6	1	1	2	1	0	2	0	1	1
Other areas	0	0	0	0	0	0	0	1	0	0
<b>Location not identified or Overseas</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Total</b>	<b>193</b>	<b>192</b>	<b>247</b>	<b>169</b>	<b>102</b>	<b>113</b>	<b>97</b>	<b>98</b>	<b>123</b>	<b>107</b>
Metropolitan areas	161	151	182	135	81	95	84	79	97	79
Other areas	32	41	65	34	21	18	13	19	26	28

518. The Working Party is of the view that this continued decline in the number of applicants being registered is substantially a reflection of:

- (a) the specialisation that now occurs in the accounting profession;
- (b) the concerns that some members of the profession have about being subject to litigation for damages for alleged professional negligence;

<sup>5</sup> The statistics show the jurisdiction in which the RCA is currently resident rather than the jurisdiction in which registration was obtained.

- (c) the fact that auditing is now a mature market;
- (d) the fact that the Law does not require all members of an accounting partnership to be registered as company auditors; and
- (e) the more stringent experience requirements that were introduced in 1982 as part of the co-operative companies and securities scheme.

519. Having said this, while the pre-1982 requirements were clearly inadequate (at least in respect of audits of larger companies), some commentators now suggest that the current requirements may, nevertheless, go too far the other way and make it excessively difficult for many accountants to obtain registration as company auditors. This may result in an increase in the costs of audits to the general community due to a decrease in competition.

## **QUALIFICATIONS FOR REGISTRATION**

520. The Working Party has identified three issues concerning qualifications for registration. They are:

- (a) educational qualifications;
- (b) professional requirements; and
- (c) the appropriate level of experience.

521. Each of these issues is addressed in the following paragraphs.

### **Educational Qualifications**

522. As previously noted, to be registered as a company auditor under the Law, an applicant must:

- (a) be a member of either the ICAA or the ASCPA or another prescribed accounting body;
- (b) have tertiary qualifications in accountancy and commercial law; or
- (c) have other qualifications and experience that are equivalent to either of the abovementioned qualifications.

523. The inclusion of membership of the ICAA and ASCPA in subparagraph 1280(2)(a)(i) of the Law as meeting the educational requirements for registration as a company auditor was principally intended to cover the situation where a member

obtained his or her educational qualifications through the satisfactory completion of the professional bodies' own examinations. As a university degree or equivalent has been a pre-requisite for membership of both the ICAA and the ASCPA for more than 20 years, few, if any, applications for registration are now received from individuals who are not graduates. In these circumstances, the reference to the ICAA and ASCPA in subparagraph 1280(2)(a)(i) has little utility and could be omitted without affecting the current registration regime.

524. Comments provided to the Working Party about the issues to be addressed during the course of the review suggest that existing educational requirements of a university degree or equivalent are adequate and appropriate.

525. The Working Party has, nevertheless, expressed the view that auditing units included in many tertiary courses do not adequately deal with the topic. The Working Party considers that the educational requirements for registration as an auditor should, in addition to the existing requirements, require the successful completion of a specialised auditing module equivalent to that currently provided by the ICAA's PY Program or the ASCPA's CPA Program.

526. Applicants who have suitable overseas qualifications will not be required to undertake the auditing module. Similarly, applicants who can demonstrate to the registering body that they have sufficient equivalent qualifications and experience will also be relieved of the requirement to complete the auditing module.

### **Recommendation 5.1**

The existing educational pre-requisites for registration as a company auditor (ie tertiary qualifications in accountancy and commercial law) are considered to be adequate, subject to the introduction of an additional requirement that all applicants have completed a specialist course equivalent to the auditing module currently provided by the ICAA's PY Program or the ASCPA's CPA Program.

### **Recommendation 5.2**

Relief from the requirement to undertake the course of study referred to in recommendation 5.1 should be granted to an applicant who holds suitable overseas qualifications or who can demonstrate to the registering body that he or she has qualifications that are equivalent to the auditing module.

## **Professional Requirements**

527. At present membership of an accounting body is not a mandatory pre-requisite for registration as a company auditor.

528. Some submissions to the Working Party have proposed that membership of an accounting body should be made a mandatory pre-requisite for registration as a company auditor and the continuation of that registration. As the majority of applicants for registration as a company auditor are already members of at least one accounting body, implementation of such a proposal could be expected to have little impact on the accounting profession as a whole.

529. The proposal does, however, raise a number of questions, including:

- (a) Whether the introduction of such a requirement would be contrary to the requirements of the Trade Practices Act?
- (b) What provision should be made for people who do not wish to seek membership of an accounting body?

530. In its report on the accounting profession, the then Trade Practices Commission noted (in the context of State and Territory Acts that required audits to be conducted by members of either the ICAA or ASCPA):

Where mandatory membership is prescribed, the application by the professional bodies of their own standards and rules can prevent individual accountants with appropriate qualifications and experience from conducting audits irrespective of their competence. In a market as diverse and essentially deregulated as that for accounting services, the assumption



that only members of the major professional bodies are adequately qualified is open to question.<sup>6</sup>

531. If the Law were to be amended to make membership of an accounting body mandatory for RCAs, the move would almost certainly be seen as anti-competitive unless the Law contained special provisions in respect of individuals who were not members of an accounting body. In these circumstances, little purpose would seem to be served by making membership of an accounting body a mandatory requirement for RCAs.

532. Nevertheless, the Working Party believes that individuals who are not members of an accounting body that is an authorised accounting body should, in conjunction with their application for registration, be required to give a written undertaking to the body with which they are making application to abide by the code of ethics and other rules of that body as if they were members.

### **Recommendation 5.3**

Where a person who is not a member of an accounting body that is an authorised accounting body seeks registration as a company auditor, he or she must agree to abide by the code of ethics and other rules of the authorised accounting body to which they submitted their application on the same basis as members of that body.

## **Level of Experience**

533. The question of what should be the appropriate level of practical experience for registration as an auditor has been one of the more difficult issues to confront the Working Party during the course of the review.

534. As noted earlier in this chapter, the Law currently provides that an applicant for registration as an RCA must have not less than three years work in auditing under the direction of an RCA and, in addition, at least one continuous year during the previous five years must have been spent supervising audits of companies.

535. A wide range of views were put to the Working Party concerning:

- (a) the continuing appropriateness of these requirements as a pre-requisite for registration; and

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<sup>6</sup> Trade Practices Commission, Study of the professions — accountancy (final report — July 1992), p. 93.

- (b) the level and type of experience that should be a pre-requisite for registration as a company auditor.

536. The comments received by the Working Party have included that:

- (a) the existing experience requirements are adequate;
- (b) the existing time-based practical experience requirements should be replaced by a competency-based regime;
- (c) the existing experience requirements are too high for practitioners in smaller firms and in provincial centres;
- (d) consideration should be given to having a tiered registration system;
- (e) there should be an educational process to facilitate registration of persons who do not meet time requirements or whose experience is in non-company audits; and
- (f) consideration should be given to having a system of provisional registration.

537. The Working Party also noted that a number of submissions raised issues concerning the increasing difficulty that members resident in provincial centres, in particular, were having in satisfying the prescribed experience requirements for registration. As noted earlier in this report, similar concerns have been raised in representations to the Government.

538. The options considered by the Working Party as a means of resolving the problems associated with the practical experience requirements are outlined below.

## **OPTIONS FOR RESOLVING PROBLEMS WITH PRACTICAL EXPERIENCE REQUIREMENTS**

539. In light of the representations made to the Working Party concerning practical experience, the Working Party has revisited the entire question of what practical experience is needed by a person seeking registration as a company auditor. In undertaking this reassessment of the requirements, the Working Party has had particular regard to developments within the accounting profession since the existing requirements for practical experience were first introduced in 1981 as part of the legislation for the co-operative companies and securities scheme.

540. Prior to 1981, a person could be registered if the body responsible for registering company auditors was 'satisfied that he has sufficient practical experience in

accountancy and has the capacity to act as a company auditor...<sup>7</sup> While inquiries by the Working Party have not produced a positive explanation of the decision to revise the practical experience requirements contained in the co-operative companies and securities scheme legislation, it is believed that the decision was taken to overcome legal concerns about the vagueness of the expression ‘sufficient practical experience’.

541. The Working Party has identified two basic ways in which the Law could deal with the issue of practical experience:

- (a) retain an hours-based regime with modifications to reflect developments within the accounting profession since the existing requirements were introduced in 1981; or
- (b) introduce a competency-based regime.

542. Prior to settling on the above options, the Working Party explored the possibility of adopting a form of provisional or conditional registration for those applicants who could not meet the practical experience requirements for full registration. Under the provisional or conditional approaches, an applicant would be registered as a company auditor for a period of three years provided he or she had practical experience equal to at least half that needed for full registration and, in addition, that he or she agreed to undertake a minimum amount of audit work each year (600 hours under the provisional proposal; 400 hours under conditional) for three years, agreed to have all audits that they undertook during that period reviewed by an RCA who had full registration and agreed to have the audit procedures used by them reviewed during the first and third years following registration as part of a quality review program.

543. Many of the submissions received by the Working Party were highly critical of the proposal that all audits undertaken by provisional/conditional RCAs should be reviewed by a full RCA, noting that the proposal had the potential to be administratively complex (reviews of audits; additional quality reviews). It was argued that this administrative complexity could increase the cost of audits performed by provisional/conditional RCAs and that this additional cost would have to be passed on to clients in the form of higher audit fees. This, in turn, might disadvantage provisional/conditional RCAs by making it less costly to engage an RCA with full registration.

544. However, the principal criticism of the provisional/conditional registration scheme was reserved for the number of hours audit of work that would have to be undertaken each year by a provisional/conditional RCA. Submissions received from smaller firms in both metropolitan areas and provincial centres outlined the difficulties that they would have in meeting even the 400 hours per annum requirement needed for

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<sup>7</sup> ACT Companies Ordinance 1962, subsection 9(7). There were similar provisions in the Companies Acts of most States and the Northern Territory.

conditional registration. An ICAA survey of approximately 4,000 chartered accounting practices that had a response rate of 17.5 per cent, found that 85 per cent of the respondent practices (ie partners and staff) performed audit work with 70.4 per cent of audit practices performing less than 600 hours audit work per annum and 58.5 per cent less than 400 hours. Only 20.6 per cent of the audit practices undertook more than 1,000 hours audit work per annum. With so many audit practices apparently performing such a low volume of work, the Working Party acknowledges that individual partners and staff members would have had great difficulty satisfying the hours requirements proposed for provisional/conditional registration.

545. While the Working Party considers that the proposals for provisional/conditional registration have considerable merit and are capable of implementation, concerns raised in submissions about the administrative difficulties of the proposals and the number of hours audit work that would have to be undertaken each year by a provisional/conditional RCAs have led the Working Party to conclude that it would be counter-productive to give further consideration to them.

## **An Hours-Based Requirement**

546. The existing requirement that an applicant for registration as an RCA must have not less than three years work in auditing under the direction of an RCA and, in addition, at least one continuous year during the previous five years must have been spent supervising audits of companies, is subjective to some extent in the sense that one person's interpretation of what is needed to satisfy the periods of time specified in the Law may be different to another person's interpretation. For example, where a person spends the majority of time in any one month on audit work, can the whole month be included when calculating whether the legislative requirements have been satisfied or is a more precise apportionment of the time required.

547. Following discussions with staff of the ASC, the Working Party concluded that, in order to satisfy the current experience requirements for registration as an RCA, an applicant could be required (on the basis of billable hours in larger firms) to spend a maximum of 4,725 hours working under the supervision of an RCA including at least 1,575 hours taking a senior level of responsibility for the audits of companies if a precise apportionment of time is required.

548. It is the view of the Working Party that such hours are excessive, especially in the light of the various initiatives, such as public practice certificates, continuing professional education and quality review programs, that have been introduced by the accounting bodies over the last 15 years.

549. After consideration of a range of alternative hours-based experience requirements, the Working Party believes that the level of experience needed to obtain full and immediate registration if an hours based eligibility regime is to be retained should be 2,000 hours work in auditing over a period of five years. Some 500 hours of

this time should be on work that involves taking a senior level of responsibility for the audits. In accordance with current ASC guidelines, 25 per cent of both the 2,000 hours and the 500 hours should be spent on company audits.

550. The principal advantage in retaining an hours-based regime for determining the practical experience requirements needed for registration as an RCA is that it is objective and certain. A person will be in a position to judge whether he or she has satisfied the requirements prior to making application for registration.

551. The disadvantages of an hours-based regime are that the selection of the number of hours' experience that need to be met is largely arbitrary, that achieving those hours gives no real indication whether a person has the level of skills and other attributes needed to perform audit work and that the regime will invariably discriminate against accounting practices that do not have a high level of audit work, regardless of the quality of that work.

## **A Competency-Based Requirement**

552. In a submission from the ICAA and the ASCPA and discussions the Working Party has had with these bodies and the NIA, it has been proposed that the existing hours-based practical experience requirements should be replaced by competency-based requirements modelled on the auditing component of the discussion paper on competency based standards prepared for the ASCPA, the ICAA and the NZSA by Professor Birkett.<sup>8</sup>

553. In the discussion paper, competency is described as 'the way in which individual attributes (knowledge, skills, attitudes) are drawn on in performing tasks in particular work contexts... Competency is realised in performance. Hence, it can be defined by reference to particular types of job performance, in terms of what is to be performed and how well a performance is to be constituted. The performances thus defined are referred to as competency standards. Competency standards involve an appropriate linkage between:

- (a) tasks to be performed,
- (b) the contexts in which tasks are to be performed,
- (c) specified performance criteria, and

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<sup>8</sup> Professor W P Birkett, 'Competency based standards for professional accountants in Australia and New Zealand: discussion paper', ASCPA, ICAA & NZSA, Sydney, 1993

- (d) individual attributes entailed by the performance.<sup>9</sup>

554. Since publication of the discussion paper, the ICANZ has moved to implement a competency assessment system based on the work of Professor Birkett. The New Zealand system relies on a significant amount of external verification and support by an appropriately qualified employer or mentor. The system is portable between employers and is documented as levels of competence are reached by a log book system.

555. The New Zealand log book requires practical experience to be gained in the following areas with more detailed breakdown of work areas involved in audit and a description of the outcomes that are achieved for each component of the work area:

- (a) design and implementation of methodologies for examining, verifying, evaluating and reporting on financial or non-financial representations of organisations;
- (b) design and implementation of methodologies for examining, verifying, evaluating and reporting on the level of compliance of activities, systems or processes within organisations with internally or externally generated policies, standards, legislation or other requirements;
- (c) design and implementation of methodologies for evaluating and reporting on managerial, operational or procedural processes in organisations;
- (d) participation in the development or evaluation of professional standards or benchmarks for auditing processes and outcomes;
- (e) management of audit work; and
- (f) management of the diverse and evolving contexts of accountability which bear on the conduct and outcomes of auditing work.

556. The ICAA and the ASCPA have advised the Working Party that they expect to have completed the documentation phase for implementing a competency-based regime by mid 1997 and that the new system could be operative in 1998.

557. While a competency-based regime has considerable merit in ensuring a high standard of applicants seeking registration as company auditors, the Working Party notes that a potential deficiency of the regime could be its subjectiveness. Issues including objectivity, bench marking, consistency of assessment, and the extent of experience in the various fields of audit will need to be satisfactorily addressed.

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<sup>9</sup> Birkett, page ix.

558. The Working Party believes that a competency-based regime will need to be agreed with the ASC and as such must be designed to satisfy the requirements of the ASC.

## **Assessment of Options**

559. As noted above, each option has its advantages and disadvantages. The Working Party believes that the most important considerations are that whatever method is selected is transparent in its method of operation and that it produces outcomes that are impartial and equitable, as well as being capable of being consistently applied.

560. In assessing the options, the Working Party notes that:

- (a) An hours-based regime has the advantage of certainty (ie an applicant knows when he or she has satisfied the minimum requirements), but is deficient in that it says nothing about the quality of auditing work performed by the applicant. This deficiency could be overcome by using the time-based requirement in conjunction with a log book recording the nature and complexity of each audit assignment performed. It could be supplemented by documentation such as a quality review or a competency-based assessment.
- (b) A competency-based regime, while having the potential to indicate whether a person has the ability to perform auditing work, suffers at present from uncertainty surrounding the assessment system. The system also suffers from the fact that it is still only a proposal that has not been implemented by accounting bodies in Australia. Against that, the regime provides a mechanism for assessing the skills and abilities of individual accountants which ultimately has the potential to be more reliable than an assessment based on the number of hours of audit work that has been undertaken.

561. The Working Party, after consideration of the options, has concluded that competency standards should ultimately be adopted as the principal basis for determining whether a person has sufficient practical experience in company auditing and auditing techniques to be registered as a company auditor. In coming to this decision, the Working Party notes that the adoption of competency standards will add a further qualitative element, will further the move towards a self-regulatory approach along the lines advocated elsewhere in this report, and will meet the concerns of accountants in smaller and provincial firms in that it will facilitate the registration of individuals who are proficient in auditing work but who cannot satisfy the existing practical experience requirements.

562. The Working Party has also concluded that an hours-based regime should continue to be used pending the introduction of competency standards by authorised accounting bodies, although it is expected that by time the recommendations in this

report are implemented, the competency standards will be fully operational and the hours based regime will have become redundant.

563. For the purpose of implementing competency-based requirements, the Working Party considers that the Law should specifically provide that competency standards should be used to determine whether an applicant has attained an appropriate level of practical experience. In this regard, the ASC and each authorised accounting body would be required to negotiate the criteria to be considered in the approved competency standard and the benchmarks that would be used to determine whether an applicant's experience and performance in respect of each criteria is satisfactory or unsatisfactory. Details would be included in an MOU. The Working Party also considers that the mentor/employer involved in the completion of the competency statement should be an RCA.

564. At the end of the day, the ASC would need to be satisfied that a particular competency based regime of a body seeking authorisation to perform the registration function was sufficiently rigorous, transparent and objective before it would agree to allow the body to register auditors using that regime. If the ASC was not satisfied about the adequacy of the competency regime, but was satisfied about all other aspects of the body seeking authorisation, it could delegate the registration function to that body provided it only registered auditors on the basis of the prescribed hours requirements.

565. The following recommendations are based on the premise that the functions of registering and supervising company auditors will be delegated to authorised accounting bodies. In the event that the function is not delegated to such bodies, it may not be possible to implement, either in whole or in part, the recommendations dealing with competency standards. In these circumstances, the Working Party recommends that the revised hours-based regime should be used as the experience criteria in the Law.



#### **Recommendation 5.4**

Where an authorised accounting body has in place a competency standard in auditing that has been approved by the ASC, an applicant must satisfy the audit component of the competency standard in order to be registered.

#### **Recommendation 5.5**

The ASC must be satisfied about the appropriateness and workability of the audit component of an authorised accounting body's competency standard before that standard may be approved for use by the authorised accounting body as a basis for deciding whether an applicant meets the practical experience requirements for registration as a company auditor.

#### **Recommendation 5.6**

Where an authorised accounting body does not have an approved competency standard in auditing, the level of practical experience required for registration as a company auditor should be:

at least 2,000 hours work in auditing over five years under the supervision of an RCA; and

a minimum of 500 hours of this time should be spent on work that involves a senior level of responsibility for audits.

### **Auditor of Specific Company**

566. Subsection 324(12) of the Law provides that where it is impractical for a proprietary company to obtain the services of an RCA as auditor of the company by reason of the place where the company carries on business, a person who is suitably qualified or experienced and who is approved by the ASC may be appointed as auditor of the company. Such a person is deemed to be an RCA.

567. While this requirement is little used, the Working Party considers that it should be retained in the legislation as it provides a safety net for dealing with a situation where a company is required to have its financial statements audited but, for the reasons specified in the provision, is unable to engage an RCA.

### **Recommendation 5.7**

Subsection 324(12) of the Law, which provides that the ASC may appoint a suitably qualified or experienced person as auditor of a proprietary company where it is impractical for the company to obtain the services of an RCA because of the location where it carries on business, should be retained.

## **RE-REGISTRATION OF AUDITORS**

568. Under the existing legislative requirements, a registration as a company auditor is opened ended. An RCA's name can only be removed from the Register of Auditors where:

- (a) the RCA requests the ASC to do so; or
- (b) the CALDB directs the registration to be cancelled.

569. It has been suggested to the Working Party that one consequence of these provisions is that, even where RCAs have ceased having an active involvement in audit work, they are reluctant to ask the ASC to remove their names from the Register. This, in turn, means that there are an unknown number of inactive auditors whose names still appear on the Register.

570. The Working Party understands that one reason for inactive auditors being reluctant to have their names removed from the Register is the difficulty of obtaining re-registration should they decide to resume auditing work. Under present requirements, a person seeking re-registration as an auditor would have to satisfy the same educational and experience requirements as a first-time applicant.

571. The Working Party concluded that the Law should be amended to provide a different process for re-registration. In establishing the criteria for re-registration, specific recognition should be given to earlier auditing experience.

572. The Working Party considers that the following conditions must be satisfied by an applicant for re-registration as an auditor:

- (a) the applicant voluntarily relinquished his or her original registration;
- (b) the applicant was not subject to disciplinary proceedings in respect of an auditing-related matter following the relinquishment of the original registration or that the voluntary relinquishment did not occur in order to avoid disciplinary proceedings; and

- (c) the relinquishment of the original registration was not more than five years before the date of the application for re-registration.

### **Recommendation 5.8**

There should be simplified criteria for re-registration as an auditor where the applicant had voluntarily relinquished his or her original registration.

### **Recommendation 5.9**

An applicant for re-registration as an auditor must meet the following conditions:

- the applicant voluntarily relinquished his or her original registration;

- the applicant was not subject to disciplinary proceedings in respect of an auditing-related matter following the relinquishment of the original registration or that the voluntary relinquishment did not occur in order to avoid disciplinary proceedings; and

- (c) the relinquishment of the original registration was not more than five years before the date of the application for re-registration.

