Response to Consultation Questions

In response to the Discussion paper “Three-yearly audit cycle for some self-managed superannuation funds” my comments, addressed to the consultation questions are as follows:

1. ***How are audit costs and fees expected to change for SMSF trustees that move to three-yearly audit cycles?***
   In my experience as a long-term SMSF auditor, when I have had engagements involving multiple years the costs work out higher per year. If I can pass on the extra cost to the trustee, the fees would work out higher for the trustee. Additionally, I expect the trustee would incur more costs per year because of the need to keep records handy for a longer period, or alternatively incur considerable extra cost and inconvenience tracking down records form several years ago, which would otherwise have been filed away in the normal course of the annual cycle.

2. ***Do you consider an alternative definition of ‘clear audit reports’ should be adopted? Why?***
   No. Some breaches don’t require an auditor contravention report.

3. ***What is the most appropriate definition of timely submission of a SAR? Why?***
   Lodged in accordance with due date set by the ATO.

4. ***What should be considered a key event for a SMSF that would trigger the need for an audit report in that year? Which events present the most significant compliance risks?***
   - A key event that would trigger the need for an audit report in the year would be requirement to lodge a SAR.
   - The most significant compliance risks are triggered by illegal withdrawals, loans to members, in-house assets.

5. ***Should arrangements be put in place to manage transition to three-yearly audits for some SMSFs? If so what metric should be used to stagger the introduction of the measure?***
   None. This policy should not proceed.

6. ***Are there any other issues that should be considered in policy development?***
   a) Red Tape:
      - This policy was formulated on an incorrect foundation – i.e. a commitment to reducing red tape and compliance burden for SMSF trustees. Where is the red tape? How can you reduce something that is not there? There is no red tape associated with the annual audit. The trustee, or their accountant, simply hands the books and draft reports to the auditor, who conducts the audit, in most cases without the need to burden the trustee, and hands back a signed audit report and management letter. In those cases where the trustee is using an accountant, the trustee would mostly not even be aware this is going on.
      - The only red tape is the regulations. And they should not be reduced because they were put there for a very good purpose. Super Funds have the potential to achieve significant tax benefits. The trade-off with society is a system that guarantees the money is genuinely provided for retirement, to avoid burdening the state at that stage. The thing that secures that accord is a set of regulations. The thing that ensures those regulations are followed without breach is the requirement for annual audit.

   b) Penalties - The policy, if adopted, would place trustees at huge risk of allowing a breach to go unnoticed for several years. The result could be substantial penalties. At present the annual audit cycle provides an opportunity for the auditor to draw to the attention of the trustee any breaches picked up. In most cases they can be rectified easily.

Greg Clareburt, SMSF Auditor **31 August 2018**