TACTICALSUPER
SMSF AUDIT SPECIALISTS

Response to Three-yearly audit cycle for some self-managed superannuation funds

1. **How are audit costs and fees expected to change for SMSFs that move to three-yearly audit cycles?**

Generally, when I do multiple year audits the fee is higher per year than a single year audit. The reason is that any queries I have, the trustee does not have the answer at hand and has to go back and track down documentation, resulting in more picking up and putting down of the files – hence the additional time it takes results in an additional fee.

For a three-year audit cycle – by the time we get the file to audit nearly 4 years has passed. If there is a question about a transaction that occurred in the first year it is unlikely the trustee will easily be able to track down the information. For example, bank statements are generally only available online going back a 12-month period – will banks, financial planners, managed funds, councils, real estate agents and other providers now be required to leave online the access for the previous 4 years? This will require changing their systems and increase costs due to maintaining additional storage. If Trustees have moved managed investments or financial planning firms will there be legislation in place to ensure that if required those providers will allow timely access to the information?

It would be unreasonable to insist on the 14 day response period to auditors queries per section the Superannuation Industry (Supervision) Act 1993 (SIS Act) Section 35C(2) under a three-year audit cycle. This will need to be modified to allow for additional time.

Therefore, a three-year audit will not be able to be completed in the same timeframe as an annual audit and this will hold up the audit process and delay the lodgement of the SAR as well as creating bottlenecks in the audit practice.

2. **Do you consider an alternative definition of 'clear audit reports' should be adopted? Why?**

A lot of minor or immaterial items are dealt with in the management letter to the client. These are essentially advance warning that a Trustee is not fully comprehending their responsibilities or taking the correct steps to safeguard either the investments or fund.

For example – if a fund has not taken the minimum pension payment yet it is under 1/12 of the minimum pension – they have the option of a one-off exemption where they can self-assess and do not need to notify the commissioner.

If a 'clear audit report' is the criteria then a fund in the above situation could move to a three-year audit cycle even thought they are at higher risk of having a pension shortfall situation in the next year and overclaiming their exempt current pension income.

Another example is in the in-house asset provisions under SIS Act section 82 if the market value of the funds in-house assets exceeds 5% the trustees must prepare a written plan to reduce the amount. This too is covered in a management letter and will have a "clear audit report" yet be a high risk of a contravention the following year.

3. What is the most appropriate definition of timely submission of a SAR? Why?

The date that the Tax Agent is required to lodge – or if the tax agent has been granted an exemption that date. Tax Agents have multiple clients and multiple areas of focus. This year a lot of time was taken up preparing the TBAR and therefore a funds lodgement being late may not have been because of the Trustee.

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?

The most significant compliance risk is the loan to a member or an in-house loan exceeding 5% of the assets value. This is not something that the Trustee picks up themselves it is usually picked up at audit therefore allowing Trustees to self-assess the three-year audit cycle will result in more significant administration penalties.

I recently completed an audit on a fund. For three years a member withdrew money from the Fund without having met a condition of release. The ATO administration penalties total $616,200 as each individual withdrawal was taken as a penalty event. The total amount withdrawn over the three-year period was $90,000. How many more instances like this will occur with a three-year audit cycle?

Remember Trustees have access to the Superannuation Fund bank account and if business times are tough and they know they are three years away from an audit the temptation to withdraw funds for a short term to fund cash flow in the business will increase significantly.

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?

I am a specialist audit firm. If the three-year audit proposal goes ahead no transitional method is going to help me work out the workflow ebbs and flows I will simply have to significantly cut staff.
98% of the Funds we audit are lodged on time with no ACR. This means almost 2/3 of my workflow can move into three-year audits. I do not know how I am going to be able to staff my firm with such fluctuations of workflow.

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There is no margin in SMSF audits – audit fees are extremely low and we are a commodity. I can't afford to have staff sitting around waiting for work when the workflow ebbs and flows inconsistently. In fact, the only way I will be able to continue to afford to operate is if I only accept work from accountants who will insist their clients get an annual audit or increase the price of the audit fees charged to fund the ebbs and flows. Alternatively, I can run my firm with temporary labour – reducing job stability – and the audit quality currently offered.

6. **Are there any other issues that should be considered in policy development?**

If the objective is to incentivise good record-keeping and compliance by SMSFs whilst maintaining system oversight and integrity then three-year audit cycle is not going to achieve this outcome.
An annual audit is the cornerstone to the SMSF system and shifting to a three-year cycle undermines the integrity of the system. People ask why we audit Superannuation funds and not companies – well the difference is Superannuation funds core purpose is to provide for retirement. A Superfund is given tax concessions and the Trustees of an SMSF have access to the funds. To prevent fraud and ensure that the funds are available for retirement of members an annual audit is required.
Additionally, in the recent case Cam & Bear Pty Ltd V McGoldrick the court held the auditor liable for losses suffered by an SMSF showing the high standards auditors are held to by the courts. In order for us to comply with the Australian Auditing Standards as they are currently written we have to complete an annual audit. Unless of course the auditing standards are rewritten specifically for the proposed new SMSF audit regime.

The complexity of the system has increased with the TBAR and FOFA reforms. The budgets proposal for a retirement income strategy is also increasing complexity for SMSF Trustees. The audit proposal does not offset the additional costs and complexity the above have added to SMSFs.

What about a discount on the SMSF Levy for all returns lodged on time?

Finally, what is it going to cost to monitor whether a fund has self-assessed incorrectly the three-year cycle? According to the proposal the ATO will notify trustees who self- assessed incorrectly that they need to get an audit completed. Then will have to chase up that this audit is actually completed.

This measure is not going to save Trustees money it will cost them more.

Regards
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