KPMG submission

Treasury Discussion Paper

Three year audit cycle for some self-managed superannuation funds

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Executive Summary

KPMG welcomes the opportunity to comment on Treasury's discussion paper *Three year audit cycle for some self-managed superannuation funds.*

Initiatives to reduce red-tape for self-managed superannuation funds (SMSFs) can be highly beneficial for this sector of Australia's retirement income provisioning.

In general, the Discussion Paper's proposals strike an appropriate balance between appropriate oversight and the potential for reduction in administration and costs.

However it may be the case that some SMSFs who are eligible for the three-year audit cycle do not see any reduction in costs or administration. This may occur where their record-keeping is deficient during that period, or where a significant audit matter is raised two years later than would otherwise have been the case.

As a result, many eligible SMSFs may elect to retain an annual audit cycle.

We recommend that the Commonwealth Government consider an additional measure which would significantly reduce the administration and costs for many SMSFs. This would be to allow residential property to be revalued each year using a high-level analysis of local market movements, rather than a professional valuation of the property itself. The property would then only be professionally valued for any year in which a "key event" occurred.

Detailed comments

1. General

1.1 KPMG is pleased to have the opportunity to comment on the Discussion Paper Three year audit cycle for some self-managed superannuation funds, released by Treasury on 6 July 2018.

1.2 We welcome the focus on reducing "red tape" and cost for SMSF trustees, where it appears reasonable to do so.

1.3 Our comments focus on aspects of the Discussion Paper which we believe can be refined to better support the above objectives.

2. *Q1: How are audit costs and fees expected to change for SMSFs that move to the three-year audit cycle?*

2.1 On the basis that the annual audit requirement remains, but is applied on a three-year basis, there may be some minor efficiency improvements as a result of undertaking three audits concurrently.

2.2 However, in our experience the significant contributor to audit efficiency and cost is the ability for trustees to produce the information required to support the audit process, and we would be concerned that undertaking audits at three-year intervals would adversely impact the ability of trustees to provide timely information.

Where significant audit issues arise and require consultation with trustees, the potential time lag could, in our view, make those consultations more difficult and increase the cost of reaching an appropriate resolution or conclusion.

In our view, even quite "routine" SMSF audits present issues where trustees benefit from timely interaction with the challenge that audit processes bring.

2.3 Further, there may be some administrative cost, or risk, associated with monitoring the ability of SMSFs to access the three-year audit cycle (particularly given the range of key events which would necessitate annual audit), such that we would expect some SMSF trustees to simply opt for an annual audit.

3. *Q2: Do you consider an alternative definition of "clear audit reports" should be adopted? Why?*

3.1 We agree with defining this by reference to an absence of financial or compliance contraventions requiring reporting. In the context of an audit contravention report ("ACR") this brings an appropriate balance in terms of materiality, significance of the breach and regulatory oversight.

4. ***Q3: What is the most appropriate definition of timely submission of a SMSF annual return ("SAR")? Why?***

4.1 Defining timely submission of an SAR as "an SMSF that has not submitted a late SAR in the last three years" strikes an appropriate balance between:

(i) encouraging SMSF trustees to adhere to the annual lodgement deadlines (a definition which allowed access to the three-year cycle simply by bringing a poor compliance history up to date may not provide sufficient incentive for trustees to ensure that compliance with SAR lodgement deadlines is maintained); and

(ii) allowing SMSFs which have not met lodgement deadlines in the past to achieve access to the three-year audit cycle through obtaining and maintaining SAR lodgement compliance (a definition which prevented trustees from ever accessing the three-year cycle because of late lodgement of an SAR at any point in its history would not provide the desired incentives to achieve regulatory compliance).

5. ***Q4: What should be considered a key event for an SMSF that would trigger the need for an audit report in that year? Which events present the most significant compliance risks?***

5.1 The "key events" as set out in the Discussion Paper include all of the most significant events which would increase the need for regulatory oversight in the context of a timelier financial and compliance audit. However, in our experience, applying this scope of "key events" would significantly limit the number of funds able to access the three-year audit cycle.

6. ***Q5: 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?***

6.1 The Discussion Paper outlines a number of factors (compliance history or key events) which will prevent immediate adoption of a three-year cycle. Further, we would expect a number of SMSF trustees to simply choose to continue with an annual audit process. We would expect these to limit the availability of the three-year cycle in such a way as to mitigate the perceived workflow impacts.

Notwithstanding, if the objective is maintaining appropriate regulatory oversight and compliance, the regulatory framework should be defined so that SMSF trustees, advisers and auditors have certainty in a timely way, and can implement the changes appropriately for the benefit of their clients.

7. ***Q6: Are there any other issues that should be considered in policy development?***

7.1 It is interesting that in an environment of increasing regulatory oversight (in the form of T-Bar reporting) that consideration is being given to reducing the frequency of audit processes. In our view audit processes can add value to ensuring trustees are aware of, and comply with, a broad range of obligations in an appropriate matter.

7.2 The issue that imposes the most significant cost for SMSF administration and audit is the requirement to recognise assets at fair value which are not actively traded in a quoted market (e.g. real property).

If there is a desire to reduce compliance costs for SMSF trustees, there should be consideration of appropriate relaxation of market valuation rules, subject to key events which will necessitate obtaining fair values for all assets. For example, the value of residential property could be reassessed each year based on high-level evidence of the general movement in the local market, and only professionally revalued if there is a key event during that year.