Dear Division Head,

Retirement Income Policy Division.

Thank you for the opportunity to make a submission to the ***Three-yearly audit cycle for some self-managed superannuation funds*** discussion paper.

In summary, I feel that the three-year audit cycle policy ***should not*** be implemented because the policy ***will not*** help SMSF trustees; the policy ***will not*** reduce red tape; the policy ***will not*** reduce the burden on trustees; the policy ***will*** significantly increase stress on trustees as they would have to self-determine whether they comply or not.

1. I am a trustee of my Self Managed Superannuation Fund.

2. I established my fund in 1994 and I have had a problem-free history of operating my fund since that time.

3. I undertake all roles of the fund including accounting, investing, return preparation and reporting. To do the various roles myself, I research extensively and keep up to date with regulations and ATO newsletters. I only use an outside consultant for the annual audit.

4. While many trustees of superannuation funds may be thinking of this policy favourably in terms of a possible reduction in overall audit fees (a premise I believe will not happen), I will be focussing on whether the stated intention of this policy is valid.

Discussion Paper Statement: The Government recognises that self-managed superannuation fund (SMSF) trustees appropriately face a number of regulatory requirements in administering their funds. However, the <u>Government is committed to reducing red tape and compliance burden</u> for SMSF trustees where suitable.

5. Single word responses come to mind. How? Impossible! The three year audit cycle policy will, in my opinion, do the exact opposite. So much extra burden will be placed on trustees and auditors in areas such as:
    a. Eligibility for a three-yearly audit will be based on self-assessment by SMSF trustees. Will I judge correctly that my fund has good record keeping and compliance?
    b. I must judge whether or not my fund had a key event, and if my fund has a key event every year, where is the saving?
    c. If the ATO determines that I didn't judge correctly despite my insistence that I did, I can look forward to a black mark on my record and punishment.
    d. Where is my fund at in the three year cycle?
    e. Audits must cover all years since the previous audit. I must store all documents close at hand for up to three years instead of safely archiving documents after an audit and SAR each financial year.

6. Paragraph 5 provides just a few of the reasons why the statement "***Government is committed to reducing red tape and compliance burden"*** is clearly incorrect. The burden that would be placed on trustees by the three year audit cycle would far outweigh the minimal reduction of burden by not doing an audit in one year.

7. And going a step further to paragraph 6, can the government justify the statement and/or goal that this policy will reduce red tape when the preparation required for audits will not reduce at all, and in fact probably increase. An audit can be done every three years, BUT it must cover every year since the last audit. ***Where is the saving?*** So the trustee still has to prepare three years of documentation and financials in a three year audit cycle, and the burden of doing the three year audit WILL increase over three annual audits because documents will need to be retrieved for up to three years in the past. Up to three years worth of documents cannot be archived. Memories will be tested.

8. ATO SARs will still have to be done annually. All the accounting work, financials, reporting and so on will still have to be done on an annual basis. The extra effort to have an audit done once the ATO return has been completed is minimal. The hard work is not really preparing for the audit which amounts to collecting and presenting all the financials and other paperwork. Most of the hard work is already done to prepare the SAR. So again, a three yearly audit will not reduce red tape and will not reduce burden. It will only serve to increase stress for the trustees.

9. Currently, at the end of each year, an SMSF prepares for and completes the ATO SAR. Everything is then sent to an auditor for the annual audit. Once the audit is satisfactory, the ATO SAR is lodged and taxes calculated. Should the audit reveal any errors, the errors are fixed **before** the ATO SAR is lodged. Simple and effective. But under the three year audit cycle, assuming the SMSF complies and is having the three year audit done, what happens if an error is found in the first year of accounts which affects the tax calculation and also potentially affects the tax calculation of subsequent years? The fix is now complicated as two years of SARs have been lodged by the third year. The fix now requires extensive work to prepare two years worth of SAR amendments with the possibility of penalty tax if the error resulted in not enough tax having been paid. Three year audits are not timely enough to catch errors.

10. Currently, we have a simple, easy to understand, system of SMSF reporting. Annual ATO SAR including an annual audit. This is easy to monitor, control and organise. Everyone knows where they stand and what is required. Every SMSF and every trustee and every auditor knows what to expect and what they must do. The three-yearly audit cycle policy is in danger of introducing unknowns and uncertainty into the equation. Sleepless nights for trustees will become common.

    a. Will I decide correctly that I don't have to do an audit this year?

    b. Did I have a key event this year requiring an audit even though I had one done last year?

    c. Will an error be found in the first year of the cycle which impacts the following two years of the cycle turning what would have been a ***simple fix*** if found in the first year BEFORE lodgement of the ATO return, into a potential major disaster should the error be of a type where subsequent ***ATO SARs have to be amended***? Again, no saving of red tape or saving of burden here.

11. Looking from the government perspective, legislation states ***SMSF auditors are required to report their findings to the ATO in an audit contravention report if they form the opinion that the SMSF is at risk of no longer being a going concern***

and/or has committed a reportable contravention, set out in the legislation. What happens if a well run fund suddenly has an unexpected family or other problem that results in the SMSF no longer being a going concern? What if this event happened in the first year of a three year cycle after having completed a successful audit the year prior? The fund can continue to be in operation for up to a further 2.5 years before an audit discovers a serious issue has occurred. Is this really an acceptable outcome for the government? This would certainly be a serious issue for the trustee - one that could have been minimised if a timely annual audit in the first year had uncovered the issue and steps had been taken to find a remedy in a timely manner.

12. The Discussion Paper includes the comment: ***(Stakeholder) concerns will be mitigated by appropriate eligibility criteria and, if necessary, transitional arrangements. The ATO will continue managing the risk of tax and regulatory breaches by monitoring SARs, thus maintaining appropriate oversight of SMSFs on a three-yearly audit cycle. The ATO will continue to have the ability to audit particular SMSFs in response to identified concerns.*** What can I say about this other than "Rubbish"! So now the government will be beefing up ATO monitoring to try to minimise the heightened risk of non-compliances during a three year audit cycle. So why bother then? Keep annual audits in place seeing as it is recognised that there will be increased risk of non-compliance in a three year cycle.

13. The Discussion Paper states a reason for this policy being ***a <u>potential</u> reduction in administrative costs and auditor fees for SMSF trustees due to less frequent audits.*** Can the proposers of this policy seriously suggest that an auditor will charge the same fee for auditing three years of accounts in an audit as it does for doing a single year audit? Fees are charged in relation to time spent doing any service. Any and all reasonable people would know that there will be a lot more work required to audit three years worth of operations than auditing a single year. I think this reason for introducing the three year audit cycle is completely incorrect. Any meagre savings that might happen will prove to be insignificant compared to the extra work required by trustees to prepare for a three year audit. This reason simply cannot be justified.

14. The Discussion Paper states a reason for this policy being ***an incentive for SMSF trustees to submit SARs in a timelier manner.*** There is only one incentive for submitting SARs in a timely manner. ATO anger and penalties! The audit has nothing to do with this.

15. In closing, I fail to see what has prompted the Government to want to "help" SMSF trustees with this strange policy. In my opinion, none of the reasons given have any merit. The policy won't help trustees. I am but one voice and I am sure I won't influence the final outcome as the government must have its own agenda. But I will state that despite the decision the government makes on this policy, I will continue to have annual audits done on my SMSF in order to better manage my SMSF and avoid the chance of potentially expensive mistakes not being detected in a timely manner. I have had a trouble-free SMSF since 1994 and I intend to keep it that way.

16. Submitted on 9 August 2018 by

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