Superannuation Audit
Services Pty Ltd

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Department of the Treasury
Retirement Income Policy Group
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The Treasury
Langton Crescent
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Re proposed three-yearly Audit of SMSFs

Dear Members,

I am a registered SMSF Auditor and Partner in our firm, issuing in excess of 1,000 SMSF audits annually. Our firm was founded in 1995 so has been in the industry almost since the industry's inception. On this basis I submit our views on the consultation paper's questions as below:-

Consultation question one "How are audit costs and fees expected to change for SMSFs that move to three-yearly audit cycles? "-

We already currently audit two, three or even more years at once on a regular basis for late lodgers and there is zero saving for the trustees in these situations as an audit must be performed for all assets & transactions for each year in order to issue a report for each year. Discussions with my peers confirm this is the industry norm. A zero cost saving (with deferral) for trustees is probably best case as the uncertainty and damage to the profession is likely to reduce the number of registered Auditors offering SMSF audits, which will l kely increase the annual fee. I say this as it is quite apparent that increased competition has been driving fees lower and reducing competition will undoubtedly reduce the downward pressure on fees experienced in recent years.

Discussion question two Do you consider an alternative definition of 'clear audit reports' should be adopted? Why?:-

As Auditors currently make widespread use of points requiring attention (minor breaches)on our management letters, which are errors & breaches below the reportable contravention thresholds currently set by the ATO, any issue flagged on an auditor's management letter should be considered as a negative strike against the trustees. Whilst I'm loathe to consider creating more work for us, perhaps a lowering of the reporting thresholds would achieve this or perhaps a statutory management letter which would also require lodgment would achieve this.

Discussion question three What is the most appropriate definition of timely submission of a SAR? Why?

-SAR definition I support the second definition "Those that haven't lodged late in the preceding three year period" as being a reasonable balance, whilst personal interest would prefer the first option, as more funds would be ruled out of the proposal, but I'm a reasonable man and would accept the second definition as being a reasonable balance.

Discussion question Four 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?:-
I would add that when a fund purchases or disposes of an asset forming greater than 10% of a fund's assets. Often larger transaction may be handled in a somewhat sloppy manner and quick review of these would be advantageous.
Additionally we still see many immaterial breaches of SISA s. 52(2) (d) eg. mistaken bank withdrawals, which indicates a certain level of carelessness so I would add this as a requirement. Each of the identified areas in this section of the consultation paper carries equal risk in my experience. Personally I would really like to have an audit performed in the year prior to any of these transactions to ensure a sound basis for the decision-making around these transactions, something our largest Financial Institutions also require with the provision of audit certificates with LRBA loan applications.

Discussion question Five - 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'm not convinced of the need for a staggered introduction however as the three clear years would stagger the process of itself as the three clear years were met.

Discussion question Six A**re there any other issues that should be considered in policy development?**:-
We often audit a year after balance date currently, which means that a full four years may pass if the proposed suggestion is carried, in the event of even a minor error occurring in year one of the three-year audit period the difficulty of identifying this and then rectifying it would prove a truly difficult job, surely integrity of the retirement sector is more important than any possible imagined gains.

The audit requirements were built into the SISa to ensure the integrity of this most important sector of the financial industry and with the ATO adopting an "audit the Auditor" approach it is a most cost effective and beneficial requirement conclusion- it would appear nonsensical to change the current requirements for little to zero benefit whilst risking the integrity of the entire one third of Australian retirement savings. Surely a reasonable conclusion drawn from this exercise is to recommend a withdrawal in absolute terms of this proposal. the minor cost impost from an annual audit is quite simply the best mechanism for protecting the interests of both the trustees/members and the reduction in risk to the federal government and its budget- a broken system will of necessity be borne by the taxpayer in future.

Should you have any questions, please do not hesitate to contact me.

Yours Sincerely,

Superannuation Audit Services Pty Ltd

Daniel Surjenko

Director