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To whom it may concern

Re: Possible 3 Year Audit cycle for Self-Managed Superannuation Funds

Thank you for allowing SMSF auditors to provide feedback to you.

As a business owner I agree with (and support) efforts to simplify red-tape and to reduce costs.

I believe that this proposal however does neither, and will actually expose the SMSF sector to unnecessary risk (through compliance breaches not being prevented/identified/resolved in a timely manner).

Audit is the key cornerstone of the entire sector. It provides surety and evidence to the wider community that trustees are obeying the relevant Superannuation laws (or the regulator is made aware of compliance issues which are to be rectified).

1. Audit costs would increase when performing three years at once. There would be a minimal time saving of say 20 minutes for administrative issues (engagement letter, correspondence, preparing audit reports together etc). Time savings would be more than over-run by additional time spent in chasing previous accountants, chasing documentation from 2-3 years ago, re-visiting issues existing 3 years ago and so on).
2. Clear audit reports do not necessarily mean a fund is totally compliant.

Allowing trustees to self-assess whether they can move to a 3 yearly audit cycle is in itself fraught with danger. There is an inherent bias by trustees to move to the 3 yearly option. Are trustees technically and ethically the right stakeholder to make this assessment?

Can we expect trustees to be aware of Trigger events? Will trustees know that they need to jump back in to annual audits? <u>Trigger events may occur but may not be obvious. A fund may lend to a related entity and breach the In-House asset provisions; If trustees don't understand the related party definitions then they'll assume the loan is compliant, and will avoid being audited for 3 years.</u>

What really constitutes good record keeping? Some tax agents lodge returns on time even if the audit hasn't been completed.

Whether it's wise to allow a fund to avoid audit for up to 3 years should NOT be based upon simply lodging returns on time and not having a Contravention Report issued. Plenty of funds have breaches/issues which are NOT reported via an ACR but the breaches should be monitored and the auditor will ensure they are rectified. This may not happen in future.

I am deeply concerned by the proposal to allow some Self-Managed Superannuation Funds (SMSF's) to move to having their fund audited once every 3 years.

I have been involved in auditing SMSF's for over 13 years and I believe this particular proposal has the potential to become the most damaging and costly initiative over this time.

The independent audit function is critical to the integrity of the SMSF sector.

Making different rules for different funds is fraught with danger. Trustees, administrators and accountants may be inclined to ignore certain trigger events or simply not even be aware of them as they occur. The previous auditor will have no way of knowing if such a fund should be audited.

It will be extremely difficult to audit a fund whose last audit was say 3+ years ago. The prior auditor may have retired or moved out of the sector. They may not reply to ethical letters. Trustees may have moved accountants 2 or 3 times making obtaining documents and information over the period quite cumbersome.

I believe this proposal will lead to increased costs (at the very least, significant legal issues, frustration for trustees/administrators/accountants/auditors).

The SMSF sector will be politicised/compromised should poor outcomes eventuate. That is, we may see some horror stories of breaches being undetected for 2-3 years which compound each year and lead to significantly poor outcomes for trustees (fines, penalties, difficulties in rectification etc). **The Federal Government will potentially have less comfort/confidence in the huge $s held in SMSFs.**

To date SMSF Auditors have still not been provided with tangible costings or reasons for this proposal. My understanding is that it hasn't been costed (ie. potential savings which are doubtful less additional costs of tracing/managing etc have not even be outlined). I therefore struggle to see why this has even been raised given the govt isn't even sure if it would save money (for trustees etc).

Audit costs are a fraction of the total running costs of an SMSF. A fund may incur a $400 audit fee, whilst paying $3-$5k for administration, $1-3k for accounting/tax and possibly incur financial planning fees (of say $2,000 to $10,000 per year). Possible savings of say $20-$50 on the audit (which I doubt would occur) seem like a false economy.

The auditor is the gatekeeper. Industry funds have the financial capability to employ lawyers, accountants, experts etc to ensure their funds comply. SMSFs allow "mums and dads" to look after their own retirement which is very important to society, govt and so on but we need the independent auditor involved to ensure the funds are run appropriately.

It is not uncommon for all other stakeholders to ask the auditor for advice/assistance on SMSF matters. If an auditor isn't present for 3 years then who'll be scrutinising the fund? If the police only used speed cameras for 1 year in every 3 do we think that drivers would never speed in the intervening 2 years?

We are relied upon to prevent issues before they occur. My clients often ask me in advance of a transaction as to whether it would pass the audit.

I also often (very often) spend significant time providing specific, detailed management letter points to explain issues and tell the trustees to resolve them before the next audit or they'll receive a qualification/Contravention Report.

The ATO will rarely be aware of all of this work, training and assistance. Further, the ATO is only made aware of Part B qualifications.

My concern is that the regulator(s) are therefore not aware of the full picture. They are not able to know about the tens of thousands of funds that are close to breaching rules.

Funds who are able to push out their audit for 3 years may therefore have breached serious elements of the SIS legislation. This may go on for 3 years. Unravelling the errors (after 3 years) will be far more difficult, costly and take up precious time for all involved (trustees, accountant, ATO, auditor etc).

An annual audit allows everyone involved to have a timely check that the fund is compliant, enabling them to move on to the next financial year. I have spoken to administrators who manage thousands of funds. They have decided to have ALL of their funds audited annually. They've said they believe the costs and hassles of instigating

Legal – If a tax agent submits a 2020 SMSF annual return which isn't audited – what happens 2 years later if the fund is with another accountant and the auditor identifies a breach from the 2020 year? Will the first accountant say it's not their fault, or that the lodgement was based on un-audited financial statements? Will the first accountant spend any time assisting the trustees if the fund is no longer a client? Who pays the legal fees if incurred (the trustees, who'll want the first accountant to pay).

SUMMARY OF KEY CONCERNS:

1. Integrity of the entire sector put at risk for no obvious benefit
2. There are FAR more funds close to breaching the rules than the regulators are aware of (ACR's are only the final straw – thousands receive management letters and put plans in action to rectify situations)
3. Doubtful cost savings - (no tangible evidence provided that it would save $)
4. May only apply to a small population of SMSFs and may not be worth the effort
5. A further burden to all involved to track who is postponing their audits and when/whether trigger points have occurred
6. Loss of information
7. Legal blame (multiple accountants/administrators/auditors over 3 years)
8. Auditor not aware of breaches during 3 year period
9. Compliance breaches may go undetected for 2-3 years
10. Various rules/legislation for each of the 3 audits

Other Notes:

RISK v RETURN

+ Audit fees are around 0.05% of the asset base

+ Audits are the cornerstone of providing integrity to the SMSF Sector (30% of the $2.3 Trillion in total Superannuation assets)

Why are we looking to weaken the integrity of such large amounts of money where the fees have actually declined in recent years and are far less than other Financial Planning, Accounting and Administrative fees?

While the Cat is away the Mice do Play

+ What will go on during the years that aren't audited?

Opening Balances

+ Auditors must make an effort to audit opening balances (esp if they didn't audit the prior year, and even more so when the prior year wasn't audited).

+ We cannot just accept opening balances as correct from a previous auditor, so there is far more work and risk around starting an audit where the prior period was NOT audited.

Audits will be like a first audit every time. They will take more time and be more expensive, which reduces the savings to trustees.

What constitutes "Good record-keeping"?

+ Simply not having an ACR?

+ Lots of funds have lots of issues that are raised via stern Management letters